THE CAPITAL LEVY EXPOSED

BY

Dr F. PENNEFATHER, M.P.,

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AN OLD FORMULA FOR A NEW FOLLY.

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THE CAPITAL LEVY EXPOSED

BY

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FOREWORD

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It is not as if the proposed Capital Levy were being fairly argued in the constituencies on its own merits in " Academic " fashion. As will be seen from the following pages the contrary is the case, and its Economic defects are being obscured and its possible advantages exaggerated by means of miscalculations, statements which are untrue, suppressions or perversions of the truth, and false suggestions.

It is upon such foundations that most of the—so-called —arguments in favour of a Capital Levy are based, and appeals to popular sentiment are being made. Many of these are so foolish that they hardly deserve reasoned replies, but as they are so persistently reiterated it is

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FOREWORD

A YEAR ago I published for use in my own constituency a little "Booklet" on the Capital Levy, for which such an unexpected demand sprang up in other places that it became necessary to print seven more "Editions" within a few weeks. This led me to believe that more information about the proposed Levy was desired, and encouraged me to compile the present much larger book.

A careful study of the scanty—and in many cases almost obsolete—literature on the subject has led me to think that many "Economists" have considered the question of a Capital Levy as an abstract proposition, and not as a live issue complicated by being linked up—as it is—with the general policy of the Socialist Labour Party.

In the Domain of Theory it may be possible to thus separate abstract questions from practical ones, but in the World of Fact in which we live things which are interwoven must be considered together.

It is not as if the proposed Capital Levy were being fairly argued in the constituencies on its own merits in "Academic" fashion. As will be seen from the following pages the contrary is the case, and its Economic defects are being obscured and its possible advantages exaggerated by means of miscalculations, statements which are untrue, suppressions or perversions of the truth, and false suggestions.

It is upon such foundations that most of the—so-called—arguments in favour of a Capital Levy are based, and appeals to popular sentiment are being made. Many of these are so foolish that they hardly deserve reasoned replies, but as they are so persistently reiterated it is

evidently necessary to make their folly still more apparent by dealing with them point by point, even although this involves some repetition.

My object being to write "The truth, the whole truth and nothing but the truth" about the Capital Levy, I have taken much trouble to avoid any errors or any statements which are unfair. If, in spite of this care, either have crept in, I will be grateful to readers if they will inform me, in order that any necessary corrections may be made in subsequent editions.

Having during eight years been three times elected for a poor working-class constituency, I claim to represent "Labour" just as much as any others on the opposite side. Holding no brief for Capitalists as such, I would not oppose a Capital Levy if that would really make the poor richer, even although it meant making the rich poorer. It is because a Capital Levy would impoverish *both* rich and poor that I oppose the proposal on the grounds that it would be not only "silly" but also "cruel."

The fact that I have in the following pages expressed myself strongly in regard to the Socialist Labour Party and its Leaders implies no want of respect for honest and intelligent "Labour," but merely indignation at the attempts which are being made to mislead it.

DE F. PENNEFATHER.

House of Commons Library,
October, 1923.

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PART I

THE MOUNTAIN AND THE MOUSE

"The mountain groaned in pangs of birth,
Great expectations filled the earth
And lo! a mouse was born!"

WHEN Phædrus—nearly two thousand years ago—wrote the lines translated above, he was merely repeating what was even then a very ancient satire, probably the oldest political satire in the world.* No one knows what crude and unpracticable project first drew upon itself the ridicule of the original satirist, but whatever it may have been it could not have more deserved ridicule than the present plan of the Socialist Labour Party. The words quoted above might, indeed, have been written in derision of some long bygone and forgotten "tax" which embodied the idea of a Capital Levy because, as has been truly said, "the latest 'Panacea' is often only a resurrection of a dead and forgotten failure."

THE MOUNTAIN

The Socialist Labour Party propose to raise in one operation by a general Capital Levy for the purpose of reducing our National Debt the sum of £3,000,000,000 (three thousand millions of pounds sterling).

The magnitude of this figure is such that (practically) no one can grasp its full meaning. Even a millionaire would find it difficult to imagine *three thousand times* his own wealth. To the average man 300 million pounds or 30 million pounds or three million pounds or £300,000 are incomprehensible sums.

In other words our minds are so "numbed" by the immensity of 3,000 million pounds that the proposal to raise that sum does not cause the alarm which it would do if its full significance could be appreciated.

* Taken from Æsop (600 B.C.).

The "Chart" opposite is intended to make it easier to "visualize" the magnitude of the "Mountain" of taxation implied by the proposed Levy. Also (see page 15) the absurdly small result.

"**A**" is a comparative height representing the total amount of the cash deposits in *all* the Banks in Great Britain and Ireland (say, 2,000 million pounds) (1921). It will be seen that the proposed Levy exceeds these total Bank deposits by one-third.

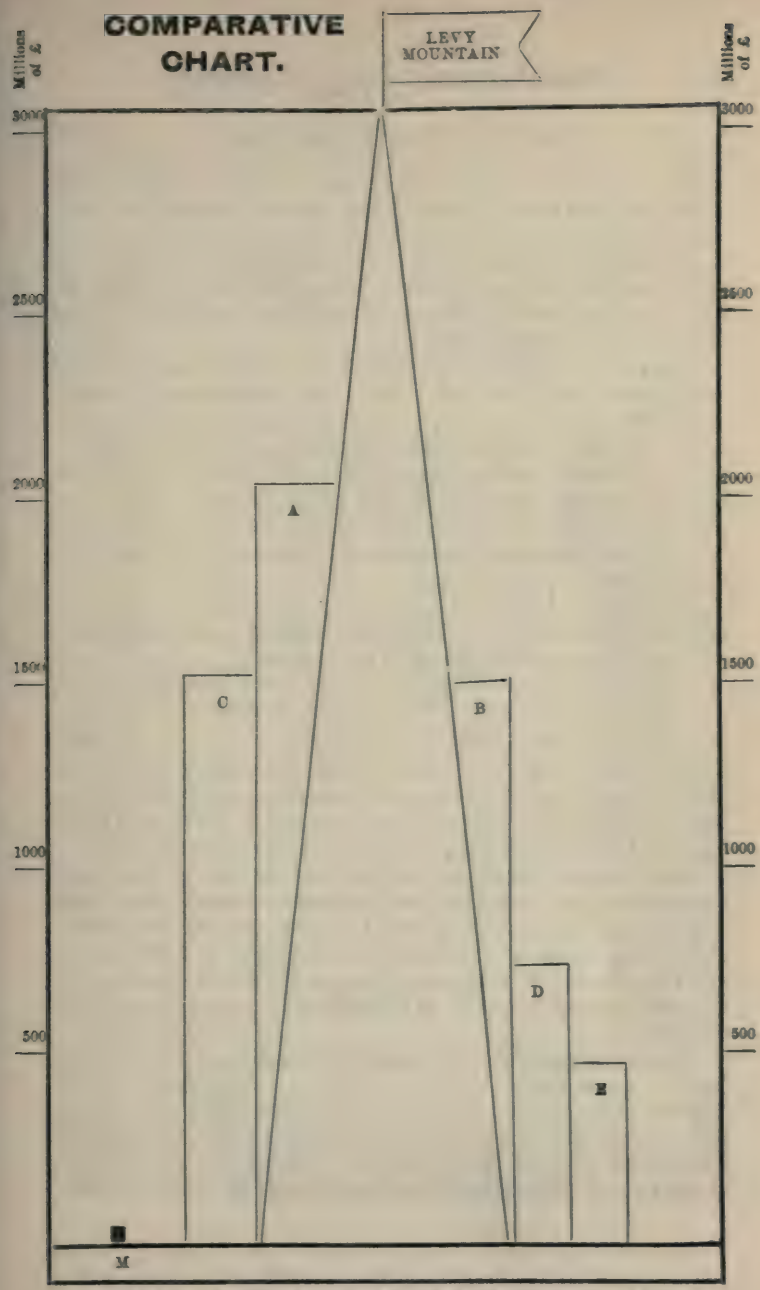
"**B**" shows the total of *all* the War Debts owing to us by our Dominions, and by France, Italy, Serbia, Portugal, Roumania, Greece and other Allies, and all that is owing to us for Relief, Reconstruction, and other Loans to Austria, Poland, Belgium, Armenia, and Czecho-Slovakia. While these reach the enormous total of nearly £1,500,000,000, even that sum (which is so large that the countries concerned are quite unable to pay it to us) is only *one-half* of the still more stupendous sum which the Socialist Labour Party propose to raise by a Capital Levy from only a small section of the population of our one small country.

"**C**" shows the sum which, according to the German note of May 2nd, is the utmost Germany—with a population of sixty-five millions—can pay by way of "Reparations." It will be seen that this is only one-half the size of the sum which the Socialist Labour Party propose to raise in this country by a Capital Levy.

"**D**" shows the comparative size of our Debt to the U.S.A.—say, 700 million pounds.*

"**E**" shows the "Grand Total" of Reparations paid by Germany under the Treaty of Versailles since the end of the war up to the 31st of July last (415 million pounds), or *under one seventh* of the proposed Levy. (See "Whitaker," 1923, page 500.)

* It may be noted in passing that our American cousins did not press us to pay this relatively small sum "in one operation." They knew that to attempt to do so would ruin us, and not wishing to do this they gave us sixty years to pay in.



Scale of heights : 50 million pounds — $\frac{1}{10}$th of inch, 500 million pounds — 1 inch.

GREAT EXPECTATIONS

If such an enormous " Mountain " of money were to be collected by a Levy, " Great Expectations " would naturally be aroused as to the benefits that would come from it, and Socialist Labour Party " Economists " and Orators have already aroused them. Wonderful are the pictures they have painted of the magnificent offspring that " Mount Levy " would bring forth.

They have practically promised that *if* the country would only agree to a Capital Levy, the results—*inter alia*—would be :

1. A better distribution of Wealth.
2. Justice to Ex-Service men.
3. A lower standard rate of Income tax.
4. Lowered Rates.
5. More, better, and cheaper Houses.
6. Better Education.
7. Better Health.
8. Higher Old Age Pensions for All at a lower age.
9. More and increased War Pensions.
10. Pensions for Workers, Widows and Mothers.
11. Cheaper Food, Tobacco and Entertainments.
12. More work and better Wages.

All these things and more—they have said—would be accomplished out of the enormous yearly saving of interest which would be effected by making a Levy of 3,000 million pounds and using it to reduce the National Debt.

Many people have no doubt been taken in by these representations, because it seemed unlikely that any " Economists " or " Political Leaders " would be foolish enough to suggest imposing so enormous a Levy—with all the hardship and disturbance it would necessarily involve—unless " great expectations " were sure to be realized.

The great majority of those who accepted the " Capital Levy " as a Party " Cry " were no doubt more sinned against than sinning. They could know little or nothing more about the matter than what they read in the various Pamphlets and Books supplied to them by their Party or what they heard said on the platform or street corners.

Certain "Political Economists" and "Party Leaders" are the real sinners and deserve far more blame than their dupes.

The extent to which the public have been duped is revealed by "The Labour Speakers' Handbook," published last year,* which was *intended* (as stated in an Introductory Chapter by the Rt. Hon. Arthur Henderson, M.P.) to serve as "powder and shot" for Labour Party "workers."

Although this Handbook revealed a certain "climbing down,"† it still maintained the idea of a Levy of 4,000 million pounds and a "saving" resultant therefrom of 200 million pounds a year.

This Handbook of the Socialist Labour Party goes on to state definitely that out of this "saving" of 200 million pounds "*it would be possible*" for a Labour Government *to spend* 205 million pounds a year! The Handbook makes this plain by the following passage:

"A levy of 4,000 million pounds would reduce national expenditure by over 200 million pounds a year. *As a result it would be possible to give relief to taxpayers in many ways.* The yield of some of the principal taxes at present is as follows:"

	£
"Taxes on food	50,000,000
,, tobacco	66,000,000
,, entertainment	12,000,000
Corporation Tax	30,000,000
Income and Super tax	400,000,000"

"It would be *possible*, therefore, to abolish the taxes on food, cut off half the tax on tobacco, get rid of the Corporation and Entertainment Taxes, knock fifty million pounds off the Income tax and still have thirty million pounds over to provide education and other reforms."‡

Such are the "Great Expectations" with which the Socialist Labour Party have "filled the Earth." In order to make the full meaning of these "Expectations" still clearer (and thus gain votes) the Handbook goes on:

"To a working-class family of five persons, this would mean a saving of 4/– a week."

* The Labour Party, 33 Eccleston Square, London.

† The original idea was 6,000 million pounds or more.

‡ These items add up to 205 millons of pounds.

AND LO! A MOUSE!

A little later, the Socialist Labour Party climbed down again and reduced the sum they proposed to raise by a Capital Levy to the present figure of 3,000 million pounds. On the basis of the calculation in the Handbook, this would automatically reduce the 200 million pounds they proposed to spend on tax reduction and social reforms to 150 million pounds. In other words, a quarter of the sum which they had promised to spend in abolishing or reducing taxation vanished.

The issue of "Labour and the War Debt" by the Labour Party marked a further retreat. The "net annual saving" was whittled down therein to "at least 115 million pounds." So another 35 million pounds disappeared.

In March, 1923, "Expectations" were still further reduced. Dr. Hugh Dalton, a supporter of the Socialist Labour Party (who had twice under their auspices stood as a Candidate for Parliament, and who also holds high degrees as an "Economist"), wrote a book in favour of the Capital Levy* in which he corrected previous calculations of his party and showed that all that could be expected from a Capital Levy of 3,000 million pounds was that it might—to use his own words—"give a balance of 70 million pounds† a year on the right side available for reduction of taxation, for increase of social expenditure, or for the creation of a sinking fund for further debt reduction."

So the expectation of 200 million pounds for such purposes had by degrees and within two years fallen to 70 million pounds!

Even Dr. Dalton's reduced "Expectations" were far too optimistic, and in April last Mr. W. W. Paine—a Director of Lloyds Bank—in an article in the *Times* pointed out that the greatest *net* "saving" which the repayment of 3,000 million pounds of the National Debt could effect would be "from forty to fifty millions a year."

* "The Capital Levy Explained."

† This may account for the changed wording in the Second Edition of "The Labour Speakers' Handbook."

No "Economist" or Socialist Labour Leader dared publicly to dispute Mr. Paine's estimate. On the other hand, the greatest living authority on such matters—Sir Josiah Stamp—confirmed it in one of his recent "Newmarch Lectures" by giving figures which showed a net saving of only about 42 million pounds a year. Therefore about 40 million pounds must be taken as an authoritative "arithmetical" estimate.*

In order to visualize the absurd disproportion between this "Mouse" and the "Mountain" of the Capital Levy compare the height of the small black mark M on the left of the Chart on page 11 with the height of "Levy Mountain."

There are, however, some things which cannot be calculated. As Mr. W. W. Paine puts it: "If we assume a net direct saving of forty to fifty million pounds a year we shall probably be outside the mark, and I have no hesitation in saying that that amount will be far more than swallowed up by the losses, direct and indirect, caused by the disturbance of trade which the change-over of so large a sum from one set of pockets to another and so huge and sudden a contraction of credit must inevitably involve."

This means that it is improbable that the offspring of the Levy Mountain would be even as large as a Mouse, but that after much labour, and painful and protracted "pangs of birth," something still more insignificant and relatively ridiculous would appear; something perhaps no larger than a beetle or an ant, or even as small as one of those lesser organisms (frequently malignant) which can only be discerned by the aid of a powerful microscope.

* Forty million pounds is only a little over 1% on 3,000 million pounds.

PART II

SELECT COMMITTEE ON "WAR WEALTH"*

To cover past follies and find new arguments for the proposed Capital Levy the facts in regard to the inquiry into the "practicability" of a "Levy on War Wealth," made by a Select Committee of the House of Commons in 1920 (on which the Labour Party had three members), have been freely misrepresented by the Socialist Labour Party.

That Select Committee reported that a Levy on War Wealth calculated to bring in five hundred millions (or only one-sixth of the now proposed Capital Levy) would be practicable "*in an administrative sense,*" and, of course, in *that* sense *any* scheme of taxation—even an income tax of 19s. in the £—with the whole force of the State behind it would be "practicable."

Whether a Levy of even that limited scope (500 million pounds) was practicable "in its wider sense of *expedience* and *desirability*" was in the opinion of the Select Committee a question "which can only be determined with regard to National and financial conditions in general."

"*If,*" the Report continues, "the financial position of the country is such that it becomes a *matter of urgent necessity* to raise a sum of *the magnitude*† *of* 500 million pounds which *cannot be obtained by other means*, the

* Note.—Although a Levy upon War Wealth may no longer be a "live issue," it is here dealt with at some length on account of the bearing it has upon any Capital Levy.

† The magnitude of the proposed General Capital Levy is *six* times as great.

objections raised against a tax of this character should not be allowed to stand in the way."*

Few will disagree with that cautiously expressed truism. The first word "*if*" expresses a doubt as to the "necessity," and as to its being "urgent," and the words "which cannot be obtained by other means" suggest that "other means," if possible, would be preferable.

The Report went on to point out that since the Committee was appointed "*the financial conditions governing the problem* had been *largely modified* by (*a*) the increase of the Excess Profits Duty—as an *alternative* to a tax on War time increases of Wealth"—and (*b*) by the issue "of the new 5–15 years Treasury Bonds."

Therefore, whether in such circumstances a Levy on War Wealth was *desirable* or *expedient* was a question which the Select Committee left "to the decision of the House of Commons."

The qualifications contained in the Report (*for which all three of the Labour Members voted*) and its implications should be noted.

After due consideration of that Report and the evidence on which it was based, the then Chancellor of the Exchequer, Mr. A. Chamberlain (who was supposed to have rather liked the idea before he fully considered it), and the Government decided *against* the Levy.

After a full debate the House of Commons also rejected it by the decisive majority of 163.

Every member of the Select Committee present (except two of the Labour Members) voted *against* the Levy.

At first some of the Labour Party had the effrontery to pretend—and some of them still pretend—that the Report of the Select Committee was "in favour of" the Levy; but finding that position untenable, most of them now ignore what the Select Committee said, and what the House of Commons decided, and rely upon suggestions that the "Revenue Officials" were in favour of the policy of imposing a Levy.

This is not only incorrect, but unfair to those public

* The main aim of the War Wealth Levy was to reduce the "Floating Debt." Within three years it was reduced "by other means" by over 500 million pounds, *i.e.*, by more than the Levy would have produced.

servants. Their instructions were to prepare the best scheme they could for a Levy *if* the Government and Parliament decided to adopt the policy of imposing a Levy. *That* was a question of policy which lay outside of the functions of the Inland Revenue Department. Their duty was to prepare the best " scheme " they could. This they did, and having done so naturally argued in favour of *that* scheme provided *any* scheme was to be adopted. Upon the question of *policy* they offered *no opinion*. On the contrary, Sir J. Anderson, Chairman of the Board of Inland Revenue, in giving evidence, expressly stated : " We have no view on the big question of policy."

Dr. Dalton writes : " The Board of Inland Revenue, in their memorandum of 1919 on the practicability of levying a Duty on War Time Wealth, states that a scheme conforming to the general lines of certain paragraphs in that memorandum would, in the Board's judgment, be effective."

He forgets to mention that the particular scheme which the Board thought would be " effective " was, in the opinion of the Select Committee, " impossible to justify," and that a different scheme had to be substituted for consideration.

Mr. R. J. Clynes, M.P., in a letter to the *Times*, November 2nd, 1922, wrote : " The late Government set up a Commission (meaning the Select Committee) shortly after the War to examine the possibility of a Capital Levy on War Time Fortunes, and the Inland Revenue Department actually prepared a scheme for carrying such a Levy into effect." At that point Mr. Clynes stopped short. Mr. Clynes ignored the Report of the Select Committee, and the decision of the House of Commons. Why ? The present writer asked him that question in the *Times* of November 7th, 1922, in the following words :

" Mr. Clynes's letter in the *Times* of November 2nd is somewhat puzzling. What, for example, does he mean to convey by merely stating, ' the late Government set up a Commission shortly after the war to examine the possibility of a capital levy on war fortunes, and the Inland Revenue Department actually prepared a scheme for carrying such a levy into effect ? '

"Does he mean to suggest that the Select Committee on War Wealth (of which I was a member) recommended the imposition of any form of capital levy? If so, he had better refresh his memory because (as I pointed out in the *Times* at the time) the Select Committee did not express the opinion that the suggested levy was 'practicable' in the sense of being advisable, and only considered it practicable in the narrow 'administrative' sense of the word, subject to the proviso that the money 'could not be obtained by other means.' This, of course, meant that the levy would be the most undesirable method of raising it."

As Mr. Clynes never replied, and as no one has disputed any of the statements or inferences in that letter, it must be regarded as admittedly correct.

THE "WAR LEVY" FOLLY

In order fully to appreciate the folly of the War Wealth Levy proposals we must consider them in the light of the position when they were under consideration and what has happened since.

The origin of the idea of a Levy on War Wealth was a very natural feeling that it would be fair to impose a special tax upon those who had "profiteered" during the War. This led to a Select Committee of the House of Commons being set up to consider if it was practicable to do this, but at the very outset that idea was found by the Revenue Officials to be quite impracticable and it was at once abandoned and a scheme was produced, under which *all* whose wealth had increased *during* the war—even although not by the War—and whose post-war possessions exceeded a certain sum would come under the Levy. So any attempt to single out the Profiteers came to an end and the Levy was to apply "to innocent and guilty alike."*

In order to ascertain the liability of the individuals affected it was proposed to go back *six years* and to find out—or try to find out—what the value of each person's possessions had been in June, 1914, *on the basis of the money prices then ruling.*

The second step was to go back a year or so and try and find out what the value of those persons' possessions had been in June, 1919, *on the basis of the money prices at that date.*

The third step was to compare these two valuations and to levy a tax upon the *difference* beween the two if the increase brought the person under the scheme.

* See pages 62–64.

It must be remembered that in 1914—*i.e.*, before the War—the *money value* of everything was expressed in "golden sovereigns," each of which was *really* worth £1, but that in June, 1919, the *money value* of everything was expressed in "paper money" or "Treasury notes" (or "Bradburys," as they were often called), which were *really* worth less than half of a "golden sovereign."* The effect of this was that *things* which were "quoted" at £1 in 1914 were "quoted" at (at least) £2 in 1919.

It was not the *things* themselves which had gone *up* in value. It was the purchasing medium, *i.e.*, the *paper* money, which had gone *down* in value.†

But according to *figures* supplied by the Inland Revenue Department, the United Kingdom *as a whole*, so far from being impoverished by the War—as of course it had been—*seemed* to have been enriched by it to the extent of 4,180 million pounds!

What those figures really *did* mean was that *if* you took the values of things *as expressed in terms of golden sovereigns worth* £1 *in* 1914, and compared them with the values of things *as expressed in terms of "Bradburys" worth only* 8/- (*i.e.*, depreciated *paper* money), five years later you would *by that method of calculation* obtain larger *figures* for 1919 than for 1914, and that you could—if you liked to be so foolish—call this increase in *figures* an increase of *wealth!*

The full absurdity of this method of calculation becomes apparent if we consider that if it were correct in this country it would be correct elsewhere, but if the *money values* in 1914 are compared with *money values* in 1919 in *other* countries whose currencies depreciated more than ours, this very same method of calculation would show that "wealth" had *increased most* in those countries whose *currency had depreciated most!* Calculated in that way, "wealth" in Germany and Russia would—during the War—have increased very much more than in this country.

* Say about 8/-.

† Strange to say, people who could see that wages paid in paper money were worth less than half of wages paid in gold, thought that other things valued in paper money were really "worth" double as much as when valued in gold!

The comicality of this method of calculation (which gave rise to the War Wealth Myth) is shown in greater detail in an extract from the Proceedings of the Select Committee in the Appendix. Here it will suffice to point out that such calculations, *if they were correct* and were carried to their logical conclusions, would indicate: (1) That *all* the belligerent countries had become *richer* through or during the War, or in other words that a World War was a way of enriching the World! (2) That the increase of wealth was greatest in those countries which were the nearest to bankruptcy, and whose currency was therefore the most depreciated, and least in countries whose currencies had not depreciated but had improved. It is difficult to think of any more ridiculous supposition.

Apart from the foregoing, the fact remains that the normal pre-war "savings" in this country before the war were about 400 million pounds a year. This during the five years of the war should have amounted to at least 2,000 million pounds. Deduct this from the Inland Revenue figure of 4,180 million pounds, and a total increase of wealth during five years (due to other causes than normal saving) of only 2,180 million pounds remains, even if the method of calculating the figures were based on "facts" instead of upon outrageous "suppositions."

It must be remembered that in June, 1919, we were almost, if not quite, at the top of the short-lived trade boom which followed the cessation of hostilities. Speculation was rampant. The temporary demand for almost everything was in excess of supplies. Prices of commodities of all kinds and of all industrial shares "soared." Values—as expressed in our depreciated paper currency—rose to abnormal heights, and it was upon these fictitious "quotations" that the Levy was to be based! Then came the "slump."* Values of commodities and industrial shares came down with a run. The value of the paper money—the Bradbury—improved. In other words the *imaginary* wealth largely disappeared.

But if the Levy *had* been imposed a *real* tax would all

* As predicted by the witness who appeared on behalf of the Association of British Chambers of Commerce (the late Sir Alfred Hobson, then President of that Body).

the same have had to be paid *out of non-existent* (*and therefore non-realizable*) "wealth." And it would have been a heavier tax than *intended*, because it would have been paid in money which had increased in value *after* the rate of the Levy had been fixed.

What the consequences would have been to trade, industry and commerce can be imagined. Financiers, manufacturers, merchants and traders of all sorts—not to mention individuals such as landowners, farmers and others not engaged in ordinary trade—would have been *compelled* to go into bankruptcy because the imaginary wealth they were supposed to have (and out of which they were to pay the Levy) had disappeared.

The "Dream" would have ended in a "Nightmare." "Crash" would have followed "crash," and the present very serious amount of unemployment of clerical and manual workers would have been immensely increased.

Again. In June, 1919, commodities and industrial shares were "*up*," but gilt-edged securities—such as Government and other first-class stocks—were "*down*." Therefore holders of "gilt-edged" stocks—no matter how rich—(such stocks are mainly held by rich people) would not only have escaped any levy upon those stocks, but would also have been entitled to "set off" the depreciation in their values against any increase in the values of any *other* commodities or shares which they held.

This would have resulted in many quite rich people either escaping the Levy altogether or having to pay very little.

Later on as commodities and industrial shares went *down* gilt-edged securities went *up*. So if the War Levy *had* been imposed, many of those who had been most heavily taxed under it would since have become poorer —if not bankrupt—owing to the fall in the values of what *they* owned, while many others who escaped it, or who were least hurt by it, would since have become much richer than *they* were in 1919 owing to the rise in the value of *their* gilt-edged securities.

The weight of evidence against this Levy—which in effect means against any Capital Levy—may be judged from the fact that apart from Government officials ten out of the twelve witnesses examined by the Select

Committee on War Wealth gave strong evidence against it Their names and qualifications are as follows :

Mr. Holland Martin, C.B., and Mr. W. W. Paine, representing Bankers ; Mr. A. H. Kilner, representing the Federation of British Industries ; Mr. Gilbert Johnstone and Mr. C. J. Whittington, representing the Stock Exchange ; Sir A. J. Hobson, representing the Association of British Chambers of Commerce ; Sir James Martin, representing the London Chamber of Commerce ; Mr. H. M. Cobb, C.B.E., and Mr. J. D. Wallis, representing the Surveyors' Institution, and Lord Clinton, representing the Central Chamber of Agriculture and the Central Landowners' Association.

Of the two " Economist " witnesses who were to a certain extent in favour of the War Wealth Levy, one—Sir Josiah Stamp—upon further consideration modified his views on that point and declared himself strongly *against* a Capital Levy.* So that only *one* (Mr. Pethick Lawrence) out of the twelve was or is in favour of either a War Wealth Levy or a general Capital Levy.

Some of the reasons given by that " Economist " for favouring a Levy (which will be found on page 196 of the " Proceedings ") are interesting. They include suggestions that otherwise prices and the rate of interest would rise, the value of gilt-edged securities would fall and the income taxes and indirect taxation be increased. Readers of this evidence will be able to judge of the reliability of " Economists " as " Prophets."

* See page 49.

THE GREAT WAR-WEALTH "MYTH"

It is proverbially difficult to "catch up with a lie." Once it is started it "runs like wild fire," and even after it seems to have been killed in one place it springs to life again somewhere else, perhaps years after.

So it is with the War Wealth "Myth," which, although it has been exposed time after time, is still used in order to create an "atmosphere" favourable to the acceptance of a "Capital Levy" or a "Socialist System," or "Communism," or "Revolution" as the case may be.

One day in 1920 a calculation was presented to the Select Committee by Sir John Anderson intended to show that the wealth—expressed in terms of money—of the *whole* nation had *during* the war increased by 4,180 million pounds.* Next day a big headline appeared in a newspaper (no doubt through some misunderstanding of the figures), reading:

"FOUR THOUSAND MILLIONS OUT OF THE WAR."

But the evidence was *not* that four thousand millions came *out of the war*, because at a later period it was explained that the normal savings of the country before the war were 300 million pounds to 400 million pounds *a year*, which during the five years would in itself come to 1,500 million pounds or 2,000 million pounds.

At the next meeting of the Select Committee attention was drawn to this misstatement, which *all* the members agreed was erroneous and regrettable.

A few days later the Chairman of the Select Committee

* The absurdity of that calculation is explained on pages 20–24.

had reason to again draw attention to the erroneous construction which was being put upon the figures by certain newspapers. In spite of this the misstatement continued to be from time to time repeated in various places and in various forms,* and in May last—nearly three years afterwards—Mr. Philip Snowden, M.P. (who ought to have known better), repeated it in an aggravated form in the House of Commons. Upon this the present writer wrote as follows in the *Times* of May 22nd, 1923:

TO THE EDITOR OF "THE TIMES."

"Sir,—In your to-day's issue, Sir Henry Buckingham, M.P., refutes one suggestion of Mr. Snowden's 'calculated to have a particularly misleading effect upon the public.' May I point out another?

"In the same speech, Mr. Snowden attributed to the Treasury a statement that 'wealthy income-tax payers managed to make themselves £4,000,000,000 richer at the end of the war than they were at the beginning.' This obviously refers to the calculations which the Inland Revenue officials put before the Select Committee on War Wealth (of which I was a member) in 1920. These figures are to be found in detail in Table 2, page 236, of the Report of that Committee, and, so far from supporting Mr. Snowden's statement, they show that he has made a colossal error.

"No less than £1,334,000,000 of the increase in wealth was attributed (1) to persons with under £5,000 total 'wealth'; (2) £288,000,000 to persons with from £5,000 to £10,000; and (3) a further £549,000,000 to those with £10,000 to £25,000. As these were 'post-war' valuations and included all sorts of non-income-producing assets, class (1) would probably pay little, if any, income-tax; class (2) would also be small income-tax payers; and class (3) would not pay much. In any case, none of these persons would come under Mr. Snowden's definition of 'wealthy' income-tax payers. Consequently, £2,171,000,000—or more than half—must be deducted from Mr. Snowden's figure of £4,000,000,000.

*Even by a member of the Select Committee (Mr. Walsh) in his Election Address, see page 97.

"Nor is this all. Mr. Snowden 'forgot' to allow for two other facts—namely:—(1) That the pre-war wealth was calculated in terms of golden sovereigns, while the post-war wealth was expressed in terms of 'Bradbury' paper money, the purchasing power of which was in 1920 less than half of the pre-war gold coinage; (2) that the 1920 values were calculated at about the top of the short-lived 'boom,' and, therefore, being largely imaginary, rapidly disappeared when the 'slump' came, and to a great extent have now ceased to exist.

"I would not venture to crave your space for these dry figures did I not feel the importance in the public interest of refuting statements which are grossly misleading."

Some two months afterwards Mr. Priestley (Manchester and Salford) said at the "Labour Conference" that the "rich" had "four thousand millions more 'quids' than they had before the war."

This statement was again corrected in the *Times*,* but as it is the sort of untruth which excites class prejudices and so gains support for Socialists, Communists and Revolutionaries alike, it will probably be repeated over and over again at street corners and other places where it is not likely to be contradicted. It will be noted that neither Mr. Snowden nor Mr. Priestley even attempted to justify the misstatements they had made. Nor had they the manliness to admit their errors and by so doing preventing others from repeating them.

* July 30th, 1922.

PART III

"SEED" OR "LIFE-BLOOD"

A CAPITAL Levy differs in principle from other taxes because it taxes the "Seed" instead of taxing the "Harvest."

"Capital" is to Industry and Commerce what "seed" is to agriculture. From the "Harvest" on the farm, or the "Profits" of the factory or office, a reasonable portion may be taken each year without, to any serious extent, diminishing the production or the yield of subsequent years, but to take away from "Seed" *required to produce crops* or from "Capital" *required in business* must inevitably in both cases reduce "production" or "yield" in following years.

And just as farmers whose "Harvests" were reduced by insufficiency of "Seed" would require fewer men to get in those reduced "Harvests," so manufacturers and merchants would require fewer work-people or clerks for their reduced "Outputs" or "Turnovers."

Or as Mr. Paine puts it: "Capital on which credit is founded is the very life-blood of Industry and Commerce."

It is true that the Income taxes take some of this "life-blood" away, but they take it at intervals in small quantities *from the "veins."* A Capital Levy would open a main "*artery*" and take a large quantity of "life-blood" *all at once.*

One does not require to be a "Doctor" either of "Medicine" or of "Economics" to know that such an "operation" as opening an "artery" and taking a lot of "life-blood" away "in one operation" must—at best—be a severe "shock to the system." Even if not fatal,

it must weaken to such an extent that the victims would be less useful and profitable members of the community.

Finance, Industry,* Commerce, Trade and Labour are all members of the one " Body " of our " National Trade," with which the prosperity of *all classes* is closely connected. An " operation " which would bleed that " Body " of 3,000 million pounds—even *if* part of it is again returned to it—must inevitably injure and weaken every part of it. It is folly to think that it is possible to bleed the " head " only and not the " hands " or other parts of the body.†

The above remarks apply to *any* Capital Levy considered as such and apart from other considerations. But if we leave " Economic Theories " and come to what is actually proposed by the Socialist Labour Party, we find that the policy of that Party is not to tax the " Seed " *instead* of the " Harvest," or to bleed from the " Artery " *instead* of from the " Vein," but to tax *both* Seed and Harvest and bleed from *both* " Artery " and " Vein " *at the same time.*

We are not, in fact, offered—as is frequently suggested—" a choice " between a Capital Levy *or* high Income tax. What the Socialist Labour Party *really* offer is a Capital Levy *and* a higher standard rate of Income tax combined, together with higher Super tax and Death Duties. Therefore the proposed Capital Levy cannot be considered only on the merits or demerits of a Capital Levy *as such*, but must—by practical people—be regarded as *part* of a scheme which, by taxing Capital heavily and also increasing the Income taxes and the Death Duties, would have a *cumulative* effect. That most important point theorists either overlook or purposely ignore.

* Which of course includes Agriculture.

† An extract from Mr. Stanley Baldwin's admirable speech on this subject will be found in the Appendix.

HISTORY AND THE LEVY

"Up to a point," as Dr. Dalton writes, historical comparisons for the purpose of forming an opinion as to the merits or demerits of a Capital Levy now may be "instructive," but—as he truly adds—"wrong inferences may easily be drawn from what happened then to what is likely to happen now." That being so, the views of Cobbett (1820) which he quotes, and the views of the London barber who shaved the German writer Heine (1828), or even the opinions of Ricardo—a century old—are not worthy of the prominence Dr. Dalton gives them.*

What the "History of Taxation" *does* teach us is that a sort of Capital Levy was introduced into England over 700 years ago which "reached the landowner through his cattle, farming stock and corn and other produce of lands, and the townsman through his furniture, money and stock in trade." This barbarous method of taxation lasted—in varying forms—for about 150 years,† and was followed by other systems not quite so stupid perhaps, but still stupid. As conditions improved and People and Parliament became better educated in sound principles of taxation, the errors of all these systems—including the Levy—became more and more apparent. So when a proposal to revert to the obsolete system of a Capital Levy was made in the time of Queen Anne, the legislators of even that not very enlightened age knew better than to agree to it. It was again rejected in England about one hundred years ago.

A Capital Levy was proposed in France about 1716, but was rejected. The idea was again rejected by France

* The proportions of direct and indirect taxation were very different in those days.

† See Appendix.

in 1871 and in 1919. It has also been rejected in Holland, Spain, and Norway.

Therefore, what is now proposed by the Socialist Labour Party (which claims to be "progressive") is the "reactionary" step of reverting to a discredited system which had died out or been rejected in every country.

It was Germany, in 1913, which re-introduced this "reactionary" policy of a Capital Levy under the name of an "Extraordinary Defence Levy" (a move in the preparation for the Great War).

As explained on pages 44 and 45 this "Once for All" Levy in Germany was rapidly followed there by other and more drastic Levies, and after the war other countries in desperate financial conditions followed Germany's example, but no country which could by any means avoid so dreadful an expedient adopted it.

Spencer Walpole, in his "History of England from 1815," tells us that our forefathers were at the end of the Napoleonic Wars faced with much the same problems as those we have now to face. On page 83, he writes: "Peace came and most of the taxation under which the nation had been labouring was continued . . . every class of society was experiencing unforeseen embarrassment . . . the manufacturer learned that the ruin of his foreign customers was destroying the market for his products. . . . Starving men were naturally inclined to probe the causes of their misery. Hundreds of self-constituted advisers were ready to ascribe it to the state of politics. Political agitators found a ready audience. . . ."

At that time the proportion of the Debt to the national wealth was about the same as now.* There were then no signs of the good times which followed the expansion of the Capitalistic System and transformed "The Hungry Forties" into the prosperous half-century which followed. There are, indeed, more grounds for hopefulness now than any which could have been foreseen in 1820. Wealth per head is greater and better distributed, and our present system of taxation presses less heavily upon the poor. We have more highly organized and better equipped industries and a far greater and more fully

* See Appendix.

developed Empire, the potentialities of which are more fully realized.

Therefore, if our forefathers of one hundred years ago had the wisdom and the courage—under even more depressing conditions*—to refuse to resort to such an expedient as a Capital Levy, we should be unworthy descendants if we adopted that "Council of Despair."

It is not as if the recent history of Capital Levies gave us any encouragement to do so. The contrary is the case. In every country in which a Levy has been imposed, the poor and middle classes are worse off than they were before, and only a few "magnates" have become richer.

When a Capital Levy was suggested in the U.S.A., in 1918, the American Economic Association appointed a Committee on War Finance to consider it. The eminent economists constituting that Committee reported—*inter alia*—that:

"Our analysis reveals so many serious objections to the capital levy that we do not hesitate to report that, in our opinion, such a measure has no proper place in a financial plan for a country in the present position of the United States. As an alternative to repudiation in a country on the verge of bankruptcy something can be said for the plan."

As there is and can be no question of "repudiation" in this country and as we are not "on the verge of bankruptcy," a Capital Levy has no more a "proper place" in the financial plans of our country than it has in the United States.

* Since March, 1920, the National Debt has been reduced by nearly 450 million pounds. During the next two years it will be reduced by a further 145 million pounds, or a total reduction of nearly 600 million pounds in four years. It took 50 years after the Napoleonic Wars (1817-1867) to reduce the Debt by 50 million pounds.

DISTANCE LENDS ENCHANTMENT

SPEAKERS and writers of the British Socialist Party have the advantage of addressing readers and audiences who, in the main, know little or nothing about what a Capital Levy is, or would mean. The fact that such a Levy has been imposed in Germany, Austria and Italy conveys little to them, because they have little knowledge of those countries or of how the Levy has worked in them.

But, as it happens, a Capital Levy was recently (1922) proposed by the Socialists in Switzerland, and the Swiss people (unlike the English, Scots and Welsh) have had opportunities of studying the question at very close quarters. Switzerland, as everyone knows, is bounded on three sides by Germany, Austria and Italy. In each of those three countries a Capital Levy has been enforced. The frontiers between Switzerland and those three countries are merely narrow lines. Therefore there is free intercourse between those countries and Switzerland. The majority of the Swiss people speak German and therefore can converse with both Germans and Austrians. Those on the Italian side can mostly speak Italian.

Such being the case, the Swiss have seen the Capital Levy in operation, not from that distance which "lends enchantment to the view," but at close quarters, and have therefore been able to learn the experience and opinions of those who have actually been under it.

The result is instructive. The more the Swiss saw and heard of the Capital Levy the less they liked it, and consequently when the Swiss Socialists proposed that a Capital Levy should be applied to their own country the Swiss people, as a whole, rejected the proposal by a seven to one majority!

A remarkable feature of this "Referendum" was that

there was not a majority for the Capital Levy *in any one* of the twenty-five Swiss cantons!

Switzerland is a very "Democratic" country, consisting mainly of "small people"* who are proverbially shrewd. Therefore, their verdict on the subject—based on intimate knowledge—cannot be lightly ignored.

Our Liberal Party also found the Capital Levy more enchanting at a distance than when more closely observed. Several of its prominent members—including Mr. Sidney Arnold, Mr. Hilton Young, Mr. Acland, Sir Donald Maclean and some twenty others—were at first more or less enchanted by a distant view of the Capital Levy. Some of them are now dead. Others have lost their seats (partly perhaps because they had "flirted" with the Capital Levy). Of those who remain, it is doubtful if any of either section would vote for a Capital Levy now that they have looked more closely at it.

So it is perhaps not surprising that even the Socialist Labour Party like the Capital Levy less the more they see of it, and in order to try and get rid of it are urging that the whole question of a Capital Levy should be referred to a Royal Commission.†

* Only about six in every thousand would themselves have actually come under the Levy.

† See page 46.

CZECHO-SLOVAKIA

JUST before and during the General Election the Socialist Labour Party made much use of the argument that, as the value of the Czecho-Slovakian currency had improved after a Capital Levy had been imposed, the improvement in the currency must be the result of the Levy, and in that way proved that a Capital Levy must be a good thing. That argument—or, indeed, any reference to Czecho-Slovakia—is not now so popular, for three reasons: (1) It has been pointed out that if fluctuations in the values of currencies in any country subsequent to the imposition of a Capital Levy are to be attributed to the fact that a Levy had been imposed in that country, the Levy would be damned by the facts that in Germany, Austria and Poland the value of the currencies had dropped to almost "nil" after those countries had adopted Capital Levies. In other words the argument used by the advocates of the Levy scored only *one* point in their favour and scored several points for the opponents of a Levy.

(2) They perhaps realized that if they said too much about the success of the Czecho-Slovakian Capital Levy, they might be asked why they did not copy it, and that question would be distinctly awkward, because the Capital Levy our Socialist Labour Party propose for this country is *very* different from the one in Czecho-Slovakia, which they say is a success.

For example, the Czecho-Slovakian Levy was expected to bring in about 63 million pounds, or about £5 per head of population, and the limit of exemption is so low that all but the quite poor are liable to the Levy.* What *our* Socialist Labour Party propose is a Levy of 3,000 million pounds, or about £70 per head of our population,

* See Appendix F.

with an exemption limit so high that it would fall upon only a very small percentage of the population. So it would not suit our advocates of a Levy to lay too much stress upon the Czecho-Slovakian "Model."

(3) Although currency values had improved in Czecho-Slovakia after the Levy had been imposed, trade and general conditions went from bad to worse. Early in 1922 a statement appeared in the *Times* to the effect that "the Republic of Czecho-Slovakia had been compelled to reduce the salaries of its State servants and school teachers." In August, 1922 (after the Levy had been in operation for about two and a half years), the *Daily Herald* stated that "Much of Czecho-Slovakia's industry is at a standstill. . . . It appears certain that industry in the Republic will decline swiftly."

At the end of last year unemployment in Czecho-Slovakia was—in comparison to population—about as great as in this country.

Yet last April Mr. Pethick Lawrence, of the Socialist Labour Party, wrote in the *Times* in reply to Mr. W. W. Paine to the effect that in Czecho-Slovakia the Capital Levy had been received by leading Bankers "with enthusiasm" as a means of rectifying their exchange position. To that statement Mr. Paine replied:

"I have no means of controverting that statement, though I should like to know a little more about it. But I was in that country myself last year, when the exchange stood at about 230 crowns to the pound sterling. The par of exchange is 24.02, and the present rate about 156. If the gold value of the pound sterling depreciated to about one-tenth of its normal value, say two shillings, all sorts of measures might be expedient, and even necessary, which are neither necessary nor expedient when it is 19s. 2d."

The above, however—true though it be—will probably not satisfy advocates of a Levy in this country, who are reluctant to admit that their only example of a successful Capital Levy is not as successful as they would like to make out.

Let us, therefore, consider what reasons there are for supposing that in Czecho-Slovakia the currency and conditions generally improved *because* of the Capital Levy rather than *in spite of it.*

If the Capital Levy had been an all-round success in Czecho-Slovakia the Government (and the enthusiastic Bankers !) in that country *would have been satisfied with it*, and although not driven by necessity to repeat it or increase it, might perhaps have done so on the ground that it had proved itself to be a success.

The contrary, however, is the case. So far from the Government and the people (and the Bankers) of Czecho-Slovakia being "enthusiastic" about the Capital Levy which they adopted only three years ago, they have already discovered its defects, and have this year brought in a Bill *reducing* the Levy in the majority of cases by from twenty to fifty per cent.

This plainly shows at least three things: (1) That the people of Czecho-Slovakia must have been more or less in revolt against the Levy; (2) That the Levy was standing in the way of the financial recovery of the Country; (3) That if a Levy is imposed and currency and other values either *rise* or *fall* afterwards, the "scale of assessment" becomes unsuitable and must be revised.

So it is evident that Mr. Pethick Lawrence's information in regard to the Capital Levy in Czecho-Slovakia was incomplete, particularly as he failed to learn (or does not mention) that the imposition of the Capital Levy in Czecho-Slovakia was accompanied by an enormous increase of *Indirect* taxation. The Levy was imposed in 1920; between 1919 and 1921 Indirect taxation increased *five-fold*, while Direct taxation only doubled. For 1921 the figures were: Indirect taxes, 5,198 million Crowns; Direct taxes, 991 million Crowns.* In this country, without a Capital Levy, Indirect taxation is much less than Direct.

The real reasons why the value of the currency of Czecho Slovakia improved may be gathered from information printed in Appendix F.

* See "The Czechoslovak Republic," by Císař, page 74.

"PROFESSIONS" AND THE LEVY

THERE are a great many in the middle and upper classes who could, or might claim to come under the heading of "professional" people, and who think the question of a Capital Levy does not interest them because they have been given to understand that "professional" people would not be affected by it.

As the best clients of most professional people would be impoverished by a Capital Levy it is obvious that most professions would suffer *indirectly* by it.

Apart from that, what guarantee have the professional classes that a Capital Levy would not be directly applied to them?

Many of them, of course, have more than £5,000 "capital" (as defined for Levy purposes), and the fact that they were "professional" people would not prevent them from being liable to a Levy on what capital they had.

The jewellery of an actress is as easy to value as that of a merchant's wife, and if the value of a "Patent" can be assessed, why not the value of a "Copyright"?

If the "Goodwill" of Stockbrokers is "Capital," why should not the "Goodwill" of Barristers, Doctors, Solicitors, Architects, Accountants, etc., etc., be "Capital" also?

And what about the "Capital" they possess in the form of abilities, training, art, skill?

Mr. Pethick Lawrence thinks that the justice "of imposing a special burden on *capital* the result of past savings and to exempt from it the large *incomes* obtained from their professions by Doctors, Lawyers, Business Managers, and others" is "a matter of opinion."*

Professor Pigou writes, "One man we may imagine

* "A Levy on Capital," page 81.

has spent £10,000 in buying some property that is expected to yield him an income of £1,000 over the next fifteen years. Another has invested the same sum in training and developing in such a way as to enable him to earn £1,000 a year for the next fifteen years. Under a Capital Levy the first of these men would be hit and the second allowed to go free. *There can be no warrant for this* " . . . " In principle, therefore, fairness demands that the special Levy should not be imposed upon material capital alone, but that the *power to make earnings* should also *somehow* be brought under it."

Mr. E. M. Friedman, a well-known International Economist, writes : " To avoid injustice, the advocates of a Capital Levy would . . . assess not merely the factory which yields profits but the brain which produces wages or fees."

So, although the Capital Levy Party does not express such views at present, it seems quite possible that if it got into power its extremist section would insist upon " somehow " bringing such " Bourgeoisie " as the professional classes under it, not only as regards the value of their " material " possessions, but also in respect of the estimated " capitalized " value of their talents and training.

In any case no one has any guarantee that a future Socialist Labour Party in the House of Commons would not " somehow " try " to tax brains."*

* According to Professor Edgworth, when a proposal " to tax brains " was years ago put before a certain Statesman he replied : " I notice that you favour a tax from which you would be exempt."

CHARITIES, ETC., AND THE LEVY

EVERYONE knows that all our Charitable, Philanthropic, Religious, and Scientific, etc., Societies dependent on "voluntary contributions" are making a great struggle to carry on their good and useful work,* but find it difficult to find the funds with which to do so. Few seem to have considered what effect a Capital Levy would have upon them, and upon those whose spiritual, mental and physical sufferings they seek to cure or alleviate.

All classes no doubt contribute towards the support of most Charities, but every treasurer or member of a Committee of Management knows what would happen if the richer classes were unable to continue to give subscriptions, or donations, or to make bequests in their favour. They would all have to admit that if that were to happen it could only mean "closing" or at least greatly reducing their beneficent operations.

Yet this is what *must* happen if a Capital Levy were imposed. 3,000 million pounds extracted from the pockets of the very people who are the most liberal supporters of such Societies or Institutions could only result in their

*THE INCOME OF CHARITIES.

The general financial stringency of the last few years, coupled with the serious increases in prices, has made it very difficult for our great charities, more especially the hospitals, to carry on their beneficent work, and strenuous appeals have had to be made to preserve these institutions and to carry on their work. The income of such institutions, which is exempt from income tax, is shown in the Inland Revenue report to have amounted to £14,858,572 in 1914, and £16,827,937 in 1920. When allowance is made for the new and very necessary institutions which the ravages of war made necessary, it will be seen that there is no practical appreciation of income expressed in sterling during the period, while the increased costs are known to all.—"Whitaker," 1923, page 851.

being *unable*—however kind their hearts might be—to respond to appeals.

This is so self-evident that further comment is needless, except to point out that *unless* the State stepped in and supported all the Charities and Institutions *at the expense of the general body of taxpayers or out of the Rates* many poor suffering creatures amongst us would live to curse the day when a Capital Levy was imposed. If they felt that they themselves had by their own votes or influence helped to bring it about their mental distress or remorse would be all the more poignant.

On the Religious side it may also—without any imputations—be suggested that it is difficult to believe that *any* Government or Parliament—Socialist or otherwise—would take the place of private benefactors, and vote the taxpayers' money for the support of " Home " or " Foreign " Missions, or other great endeavours mainly of a Religious (and often Sectarian) character, which are now so largely supported by the very people whom the Levy would so impoverish that they would be powerless to help.

And yet it seems that some Ministers of Religion and philanthropic people have thoughtlessly approved of the idea of a Capital Levy !

PART IV

"WHY £5,000?"

THE Labour Party at its 1918 Conference (Westminster) passed a Resolution in favour of a Capital Levy, *only* exempting "fortunes below £1,000." This was also Mr. Pethick Lawrence's original figure.

The Independent Labour Party at its Leicester Conference (1918) declared in favour of a Capital Levy "*commencing* at 5% on £2,000 valuation" (*i.e.*, £100 on £2,000, probably about £500 on £6,000).

More recently—although some still cling to the £1,000 or £2,000 proposals—the official "suggestion" (it is only a suggestion) has been that the "exemption limit" should be raised to £5,000.*

The reason given by the Socialist Labour Party for this large and sudden jump is that, when the Revenue Officials were giving evidence before the Select Committee on "War Wealth," they said:

"The Board do not think it would be practicable to carry the effective exemption limit below £5,000. An important consideration is that many of the very numerous persons in the lowest ranges of wealth are owners of small businesses, the valuation of which presents grave practical problems."

That excuse will not bear examination. What the Revenue Officials were speaking about in 1920 was a scheme for a *double* valuation, the first valuation going back to values *six years earlier*. To make such a retro-

* Mr. Clynes has pointed out in *Imperial Commerce*, July, 1922, that "It would be for Parliament to determine whether this figure was the right one." Also, in October, 1922, "The levy would be imposed upon the capital possessed by individuals who would be brought within whatever limit Parliament might fix."

spective valuation in the cases of small businesses, where proper accounts for that remote date would probably not exist, would, of course, have been impracticable. No such difficulty, however, presents itself in regard to the proposed *single* valuation for the purposes of a general Capital Levy,* and the Officials were *not* referring to any such Levy.

The truth is—again to quote Dr. Dalton—that "there is no special sanctity about this scale." If a Socialist Labour Party ever come into power it will be for the Government of that day (which may *not* include any of the more moderate of the present leaders of the Socialist Labour Party) to bring in a Capital Levy Bill, but what "exemption limit" *that* Bill will contain no one can foretell. It is impossible for the present leaders or members of that or any Party to pledge future Governments or future Parliaments.

All we have to guide us are the facts: (1) That there is no logical reason why a Capital Levy should not start at £1,000 or even less; (2) That in Germany—from whence the modern idea of a Capital Levy comes—the exemption figure was as low as £500; in Italy £800, in Austria £625, in Czecho-Slovakia £400.†

So why shouldn't the exemption limit be as high as £5,000 in this country?

People who are inclined to work or vote in favour of the *principle* of a Capital Levy should remember that they have no guarantee that the principle will be *applied* as is now "*proposed*." Whether the exemption limit is £5,000 or £2,000 or £1,000 has nothing to do with the "principle," but is a matter of "detail" for some future Parliament to settle.‡

* On page 50 of his book Dr. Dalton admits that "this difficulty would not arise in the case of a Capital Levy."

† Those calculations of the Board of Inland Revenue were based on "par" rates of exchange. At recent exchange rates they would be much lower. For example, £70 in Czecho-Slovakia, £60 in Austria, and still less in Germany.

‡ It has been fixed at = £200 in Greece.

"ONLY ONCE?"

THE Socialist Labour Party agree with the "Economists" that it would never do to repeat a "Capital Levy." One dose of "Levy Mixture" will, they say, act as a "Panacea." A further dose, they admit, would be poisonous.

But what guarantee is there that if we swallowed one dose of Capital Levy that the dose would not be repeated?

To that question a distinguished Political Economist* who is a member of the Socialist Labour Party has obligingly given a very definite answer. "There can," he writes, "in the nature of the case *be no such guarantee.*"

He adds, "If the Levy were once made and if it were subsequently proposed to repeat it, *that proposal* would have to be considered on its merits in the light of the subsequent situation, but the *present proposal* is to make it once only, for a special purpose."

That gives away the whole argument that it would never be repeated. "Special purposes," for which money is required, are continually coming forward. And once a precedent has been established it is always easy to follow it.

Take the history of the Capital Levy in Germany, for example. In 1913, Germany, for the "special purpose" of raising a "Defence Fund," imposed a Capital Levy. It was "only a little one," and of course it was to be for "this once only." *Before the year was out* a new law imposing another variety of Levy was passed.

In 1916 *another* Levy was imposed which was "much more drastic than the tax imposed by the law of 1913."

In 1917 "the tax charged on increased capital under the 1916 law was increased by 20 per cent"

In 1918 *another* sort of Capital Levy was applied.

* "The Capital Levy Explained," page 65.

In 1919 a *further* law was passed, which included "both a general Capital Levy and a Levy on Increased Capital."

Therefore, between 1913 and 1919—six years—the original Levy was repeated or added to, or increased no less than *five* times! And a sixth Capital Levy is even now being considered in Germany!

In Poland a Capital Levy was imposed in 1920.* A further Capital Levy is being imposed in that country this year!

Such hard facts effectively disprove the theory that a Capital Levy can be imposed "once only," without any likelihood of its being repeated.

* Owing to the depreciation of the currency it may not have been worth collecting.

A ROYAL COMMISSION

THE recent desire of the Socialist Labour Party to have the question of a Capital Levy referred to a Royal Commission is another indication of their growing realization of the fact that they are "backing a loser." Any Royal Commission *in the end*, after hearing and considering all the evidence, would, of course, report against a Capital Levy. No really new evidence could be laid before it. The business world could only make similar representations to those which it laid before the Select Committee on War Wealth in 1920, and the Economists could only repeat what they have already written and said.

In the meantime the mere fact that a Royal Commission had been appointed to consider the subject would in itself, by causing "fear," unsettle trade and check enterprise, and so increase unemployment.

As Professor Pigou has pointed out, "if a large class is convinced that the demand" (for a Capital Levy) "will ruin industry, this opinion must tend in some degree to promote its own fulfilment; fear that a panic will happen itself breeds panic." Professor Pigou adds, "it would be foolish to ignore these psychological reactions."*

If proof is needed of the disastrous effect of a Capital Levy being even seriously considered, it may be found in the recent experience of Switzerland. (See Appendix K.)

Another reason why the Socialist Labour Party desire to refer the whole question of a Capital Levy to a Royal Commission may be that some of its clearer-sighted members see absurdities in the plan which their duller-witted

* Mr. Philip Snowden, M.P., wrote much the same thing in the *Morning Post* last June.

colleagues cannot see,* and so, perhaps, in order to avoid divisions and to "save face" they are urging that the matter should be referred to a Royal Commission, regardless of the harm that this would do.

The Government has, however, to put the interests of the country before any amiable desire to help Socialist Politicians out of the difficulty in which they have placed themselves, and is therefore justified in refusing to create a panic by appointing a Royal Commission or any Committee to inquire into a matter which the common sense of the nation is quite competent to decide upon.

* "Forward" of February 17th, 1923, contains a statement by Mr. William Graham (Socialist Labour M.P. for Central Edinburgh), which confirms this. See Appendix G.

ECONOMISTS AND BUSINESS MEN

In "The Capital Levy Explained" the following passage from Prof. Pigou's book is quoted with approval :—

"It is true that a good business man is an expert—in his own business. . . . But problems of taxation and national finance generally are not the boot manufacturer's or the shipbuilder's or the banker's business. No doubt some bootmakers and shipbuilders and bankers have made a special study of them. If so, and if they are able men, their judgment is valuable. But it is valuable, just as the judgment of a doctor or a lawyer might be, not because they are bootmakers or shipbuilders or bankers, but because of the study they have made."

To this Dr. Dalton adds :—

"The experts in such a matter mainly consist, not of business men as such, but of professional economists and revenue officials."

If *all* "professional Economists" agreed with Prof. Pigou and Dr. Dalton in favouring a Capital Levy it might, perhaps, be considered presumptuous for ordinary business men to disagree with them. But as it happens the professional Economists differ in regard to the merits or demerits of a Capital Levy and consequently business men* are compelled to decide for themselves which "Economist" they will follow.

* Dr. Dalton, criticizing some letters from some business men to *The Times*, with which he does not agree, writes :—"In face of some of these pontifical utterances, I feel sympathy with him who said, 'Ye take too much upon you, ye sons of Aaron!'"

Reference to the Book of Numbers, chapter 16, will show that those who uttered those words and with whom Dr. Dalton sympathizes were (what a strange coincidence!) the foolish supporters of "Levi!" and (how history repeats itself!) that the rebellious Levites and their followers were utterly confounded and destroyed, while the sons of Aaron (by whom Dr. Dalton means our business men) were justified!

Fortunately ordinary business men have the guidance of many very able business men who *have* made " a special study " of the subject and whose opinion, as Prof. Pigou admits, is " therefore valuable."

In addition they have the guidance of several who combine the double qualifications of being *both* " Economists " and " Business men."

Sir Josiah Stamp, for example, combines the three qualifications of being a most distinguished " Economist," an ex-High Official in the Revenue Department, and a business man. He has declared that :—

" The Labour Party's proposal for a levy on ' fortunes ' of over £5,000 is a most dangerous expedient. The general result of the Labour Party's present proposals would cause a disturbance of values, and such a disappearance of many of the values to be taxed that credit would be destroyed or undermined, and thus unemployment would be aggravated. The inability to give complete guarantee that there would be no repetition, or that Income tax would be relieved by an equivalent amount, would be bound to deter future saving, and this again would react adversely on employment. The capital levy at its best is a mixture of virtues and vices, and, in short, the Labour Party have not secured any of the possible virtues of a capital levy, but they have embodied all its vices." *—*Morning Post*, October 28, 1922.

Then there is the Rt. Hon. Reginald McKenna, a brilliant mathematician and logician, Ex-Chancellor of the Exchequer and head of one of the largest Banks in the world. Speaking on October 24th, 1922, he said :

" Anyone who is familiar with the actual organization of British trade and industry can hardly fail to come to the conclusion that a Capital Levy would be a wholly impracticable, wasteful, and even destructive method of raising money. I do not think that those who advocate this method of

* The version of Sir Josiah Stamp's views in "The Labour Speakers' Handbook" (2nd edition, page 21) is that he "considers that the policy" (*i.e.*, the Labour Party's Capital Levy Policy) "is quite practicable." Comment upon such obvious misrepresentation seems unnecessary.

taxation have really made any deep study of our business organization."

There is also Mr. W. W. Paine, a Director of one of our largest Banks (Lloyds), who was selected by the Bankers to give evidence for them before the Select Committee on War Wealth and whose articles in the *Times* show that he has made " a special study " of the Capital Levy.

The Socialist Labour Party certainly cannot produce, in favour of their Capital Levy policy, even *one* man who combines as much economic knowledge and practical business experience as any of the three named above, who all condemn it.

It is not as if there were anything so abstruse about a Capital Levy that the ordinary business mind cannot understand it. On the contrary no " Expert " or " Revenue Official " can know better than Mr. A. what effect a Levy of a certain sum would have upon Mr. A.'s own business and upon the persons he trades with, and the men he employs. If, for example, Mr. A. *knows* that his business is already suffering from lack of capital and some others *think* that it would *not* be injured by taking away some of his already insufficient capital, which is most likely to be right ?

And what real support has the policy of the Socialist Labour Party from the leading authorities on " Economics ? " All that Dr. Dalton can say is that Prof. Pigou, Mr. J. M. Keynes and Mr. J. A. Hobson " have declared for a Levy, *though not necessarily, of course, for the details of the Labour Party proposals.*"

Even that is not a full statement of the facts. Prof. Pigou and Mr. Hobson, and also Dr. Dalton himself, base their books upon the assumption that *if* a Capital Levy were imposed the standard rate of Income Tax *would* be proportionately *decreased*. It is quite clear from their writings that they do *not* support *both* the imposition of a Levy *and also* the increases which the Socialist Party proposes to make in the Income and Super taxes and Death Duties. That is not a " detail." It alters the whole proposition.

Dr. Dalton says that " Sir Josiah Stamp and Prof. Edgeworth recognize that there are strong arguments on

both sides." This, again, is not fair in view of what Sir Josiah Stamp has said (see page 49).

Dr. Dalton "forbears to call as witnesses in favour of the Levy those Economists who are also Labour Party politicians, such as Mr. Sidney Webb and Mr. Pethick Lawrence." As Dr. Dalton is also avowedly a Labour Party politician he, by his own ruling, has excluded himself from the list of impartial Economist witnesses. So no *impartial* Economists remain who advocate the Labour Party's proposals to impose a Capital Levy and *also* to increase Income and Super taxes and Death Duties.*

* See Mr. Ramsay Macdonald's statement on this point in his Election Address, page 95.

THE "BOGEY" AND THE "BRIBE"

THE idea of a Capital Levy would not have received even such support as it has secured if the public had fully understood the proposal and if some "Economists" and "Party Politicians" had not terrified them with a "Bogey" and tempted them with a "Bribe."

The Bogey* is that *unless* a Capital Levy was accepted Income tax would rise to a very high figure. Mr. Pethick Lawrence, in 1920, mentioned 19/– in the £. Mr. Sidney Webb† suggested 15/–. Others more cautious only referred to "a largely increased Income tax," while some contented themselves with suggesting that a Levy was the only "alternative" to a "continuance of the 6/– rate."

It was only natural that many people groaning under a 6/– Income tax should be frightened at the idea of its long continuance and still more so at the idea of its being doubled or trebled, but those writers and speakers who made the most use of this "Bogey" have been made to look foolish by the fact that Income tax, instead of remaining at 6/– or rising to 15/–, has fallen to 4/6.

The "Bribe" which the "Economists" offered was that *if* a Capital Levy was imposed the Income tax would be reduced to (as Mr. Sidney Webb put it) "something like the pre-war rate" (3/6 in the £).

While this "Bribe" was offered by all the Economists who favoured a Levy, it has been advanced most persistently by Mr. Pethick Lawrence and Dr. Dalton. The

* Minor Bogies are that unless a Levy is agreed to a demand for "Repudiation" of the National Debt or for cutting down the interest thereon will arise. These are barely worth noticing, as the Conservative, Liberal and Labour Parties are all against any such things.

† Fabian Tract No. 188.

former, in the 1920 Edition of "A Levy on Capital," gives eight instances in which he assumes that as the result of a Capital Levy Income tax *would* be reduced "by one third," *i.e.*, to about 4/– in the £.

For Mr. Lawrence the excuse may be made that he *then* was suffering under the delusion that the Levy would effect a "saving" of 175 million pounds a year, available for the reduction of taxation, and did not *then* know that the Party to which he belongs intended *not* to reduce, but to *increase*, the standard rate of Income tax.

No such excuse can be made for Dr. Dalton. In his book he refers on page after page to the *reduction* of Income tax which would follow the Levy and gives five "typical cases"—with incomes from £300 to £50,000 a year—in each of which he "assumes" that the standard rate of Income tax would be reduced to 3/6 in the £.

Yet his book was published in March, 1923, *five months after* his Party had published their intention of increasing the standard rate of Income tax and of increasing Super tax and Death Duties!

Dr. Dalton admits that no one can "guarantee" that a Socialist Government would reduce Income tax after imposing a Levy. Also that if they did so they would have (practically) nothing left out of the proceeds of the Levy with which to carry out their other promises. Nevertheless he boldly states that "even without a guarantee the odds are heavily in favour of such a reduction being made after the Levy." As the Socialist Labour Party has officially declared its intention of increasing the Income tax after the Levy, the only possible inference from Dr. Dalton's words seems to be that in his opinion, when his Party Leaders say they are going to do a thing, "the odds are heavily in favour of" their doing the exact opposite!

He may be right.

DEBT PER HEAD

"The National Debt is more than £160 a head for every man, woman and child in the British Isles and more than £800 on the average for every family of father, mother and three children."

The above statement appears in the forefront of the Chapter on the Capital Levy in *both* Editions of the "Labour Speakers' Handbook" (which—as the Rt. Hon. Arthur Henderson, M.P., admits in a "Foreword"—is "designed" to provide "powder and shot for active workers in the Labour movement"). So we may be sure that this statement has been "fired off" at thousands of meetings and that "every man, woman and child," in audiences composed mainly of poor people, was much impressed when informed that *each* of them was individually carrying a burden of £160 of the debt and that *each* of their own families was burdened with £800 of it.

If that were true, it would mean that the working and poorer classes (say, three-quarters of the population) were bearing (collectively) the burden of two-thirds of the Debt, while the richer classes were only bearing (collectively) a burden of one-third of it. Also that poor families were bearing as great a Debt burden (£800) as rich families.

Let us examine this to see if it is true or not, and if not where the "catch" comes in.

We have only to look at the words underlined in the opening quotation to see that it *cannot* be true and that the "catch" consists of using *contradictory* terms as if they meant *the same thing*.

The mere fact that a figure is an "average" figure implies the existence of both higher and lower figures.*

* See any good Dictionary or Encyclopædia.

For example, if three men earned, one £100 a year, another £300 a year, and the third £500 a year, they would earn, collectively, £900 a year, or an "average" per head of £300 a year, but that calculation would not alter the fact that the first only earned £100 and the third five times as much. Or, if a subscription list were opened and ten people each contributed sums rising from £1 up to £10, making a total of £55, the "*average*" contribution "*per head*" would work out at £5 10s., but that would not alter the fact that some had only contributed £1 or £2, while others had contributed £8 or £10.

In the same way, if the "average" burden of the Debt per head of the population is £160, some only bear, say, one pound of it, while others bear hundreds or thousands of pounds of it. The truth, of course, is that (except in countries where there is a flat rate "poll tax") there is not, in reality, any such thing as a tax or burden "per head." In other words it is simply misleading the electors to tell them—as the Socialist Labour Party has done—that "*every*" one of them bears the "*average*" burden of Debt. A glance at the following tables A1 and A2 will prove the absurdity of such statements.

The fact is that if there is now "one law for the rich and another for the poor" it is only in the sense that our present system (very properly) imposes a very much heavier burden of Debt and taxation upon those who have much than upon those who have little.

Including even the very smallest contributors, the number of Income Taxpayers is only about two millions, which leaves over forty millions of the population who pay *nothing* in *direct* taxation, and the "average" *indirect* taxation is only £7 per head per year. This being also an "average" figure does not mean that *every* man, woman and child pays £7 each year in indirect taxation. It means that while some pay very much less than that average figure, others pay a great deal more.

How much each person pays in this way does not depend so much upon income as upon habits,* because indirect

* That does not imply that the "food taxes" should not be reduced. More could be done to cheapen Tea, Sugar and dried and tinned Fruits, etc., by extending preferences to Empire products (and sooner) than by a Capital Levy.

taxation is largely voluntary or self-imposed. Teetotallers and non-smokers, for example, pay much less by way of indirect taxes than those who drink and smoke heavily. People who give dinners with champagne and cigars to a number of guests probably pay as much indirect taxation in one night as "average" persons pay in a year.* Many may not pay more than £1 or £2 a year in indirect taxation, while others pay £50 or £100, or in some cases even £1,000.

So in regard to indirect taxation also the "Labour Leaders" have used the "average" figure to mislead the electors.

This persistent misuse of "average" figures, as though they were "flat rate" figures, places the Executive of the Social Labour Party (who have made themselves responsible for "The Labour Speakers' Handbook" and other publications) in an awkward dilemma, because they must obviously either confess that they do not know how to use such figures properly, or admit that they have knowingly used them improperly, and are deliberately basing arguments in favour of a Capital Levy upon false assumptions.

* The Customs Duty on imported wine alone contributes nearly three million pounds a year to the Revenue.

TABLE A1.

DEATH DUTIES.

Value of whole Estate.	Rate Charged per cent.	Death Duties.
OVER £	%	£
100	2	2
500	3	5
1,000	4	40
5,000	5	250
10,000	6	600
15,000	7	1,050
20,000	8	1,600
25,000	9	2,250
30,000	10	3,000
40,000	11	4,000
50,000	12	6,000
60,000	13	7,800
70,000	14	9,800
90,000	15	13,500
110,000	16	17,600
130,000	17	22,100
150,000	18	27,000
170,000	19	33,250
200,000	20	40,000
225,000	21	47,250
250,000	22	55,000
300,000	23	69,000
350,000	24	84,000
400,000	25	100,000
450,000	26	117,000
500,000	27	135,000
800,000	29	232,000
1,000,000	41	410,000

These duties are payable if the Estate pass to Husband or Wife, or lineal descendant. If to Brother or Sister the rate is higher; if to other relatives or strangers, it is even higher.

NOTE.—The CUMULATIVE effect of imposing a Capital Levy in addition to these Death Duties and the Income and Super-taxes can be estimated from the above and from TABLE A2 and Appendix A, bearing in mind that if a Levy was imposed the Death Duties, the Tax on Incomes (over £500) and the Super-tax would be increased to an unknown extent.

TABLE A 2.

INCOME TAXES 1922-23

On UNEARNED Incomes of Single Persons, or Widows or Widowers without young children.*

Income. £	% †	Tax payable. £
135	—	0
150	1¼	2
300	7	21
400	10	38
500	12	63
600	15	88
800	17	138
1,000	18	188
1,500	20	313
‡2,000	21	438
3,000	26	776
4,000	29	1,151
5,000	31	1,551
6,000	33	1,976
7,000	35	2,426
8,000	36	2,901
9,000	38	3,401
10,000	39	3,901
12,000	41	4,901
14,000	42	5,901
16,000	43	6,901
20,000	44	8,901
22,000	45	9,951
25,000	46	11,526
30,000	47	14,151
35,000	48	16,901
40,000	49	19,651
50,000	50	25,150

* For rates for earned or partially earned incomes and allowances for married couples, children, etc., see Appendix A.

† Approximate.

‡ Super-tax charged over £2,000.

PART V

WHO PAYS THE INTEREST?

AMONG the many delusions with which the Socialist Labour Party seems to be afflicted are :

(1) That the " Interest on the Debt " is paid to the wealthier classes by the working and poorer classes* and

(2) That a Capital Levy would largely reduce the Income tax and other taxes on these poorer classes.

Of course the interest on the Debt is paid not to any particular " class " but to *anyone* of *any* class of *any* nationality who happens to hold the " scrip " in consequence of having *bought* it and *paid* for it.

The *interest* on the *Debt* is paid, *not* out of the yield of any particular tax (such as the Income tax), but out of the whole Revenue of the State from whatever source obtained,† and it is therefore not right to arbitrarily select any one tax (such as the Income tax) and to place the yield of that particular tax against a particular item of expenditure, such as the interest on the Debt.

However, as the Socialist Labour Party have adopted that method of calculation, " on their own head be it," and let us follow it out to its logical conclusions. In so doing, to avoid argument, we will, as far as possible, use the figures given by the Labour Party themselves in their own Official Pamphlet, " Labour and the War Debt."

On page four of that Pamphlet it is stated that 15 million pounds—out of 395 million pounds collected through the income taxes—was paid by " wage earners " and " other small incomes." That is less than four per cent. of the total yield. On the same page it states that Saving Certificates, " *largely held by people of small means*,"

* For example, in " Labour and The War Debt " it is stated that " The annual transfer of wealth from taxpayers to holders of War Loan is, on balance, *a transfer from those who have little to those who have much*."

† The receipts from Non-Tax Revenue, 1922–23, were nearly 140 million pounds.

account for 290 million pounds of the Debt. Interest at five per cent. on that sum comes to £14,500,000.

So *practically the whole* of the interest (or tribute !) paid by "wage earners and people with small incomes" goes "largely" into the hands of "people of small means," *i.e.*, into the pockets of their own "class."

"Class distinctions" are not desirable, but if the Socialist Party insist on them in order to arouse "class prejudices" it must be pointed out (1) that (as shown in Appendix A) really poor people do not pay Income tax; (2) that the average yearly contribution of the larger and poorer section of the nation to Income tax is under 10/- (or about 2¼d. per week) per head; and (3) that this is *not* paid to the wealthier classes, but is (practically) *all* retained by the thrifty of their own class in the form of interest on their savings invested in "War Certificates."

That proves, on the Socialist Party's own showing, that it must be a "delusion" to suppose that the Income tax on the poorer classes is as they state "a transfer from those who have little to those who have much."

It proves something more, which is that as far as the income taxes are concerned, the "comparatively wealthy people" who hold "most of the War Loan" must *themselves* provide through the income taxes practically *all* of the 380 million pounds required to pay the interest (or tribute !) which *they* receive.* This is confirmed by evidence given before the Royal Commission on Income Tax, etc., to the effect that about ninty-seven per cent. of the income taxes were paid by three per cent. of the population, obviously the richer section.

The Labour Pamphlet moreover suggests that "the poorer sections of the community" also contribute to the *interest on the Debt* "about one-third" of the indirect taxes on food, beer, tobacco, spirits and entertainments. The total of the yield of these taxes the Pamphlet gives as £247,735,000, say 248 million pounds. One-third of this would be, say, 83 million pounds, which would be under £3 per head† on 30,000,000 of the population who might be called "the poorer classes," or—roughly—£13 a year for an average family of five persons, or 5/- per week *per family*.

* See Appendix A. Also Tables A1 and A2.

† Or less. See pages 54–56.

As we have, however, *already* provided in preceding paragraphs for *all* the interest on the Debt (having allocated the whole yield of the income taxes for that purpose), it follows that this contribution from the poorer class through these indirect taxes *cannot* be applied to payment of *interest on the Debt.*

Therefore, this one-third of the indirect taxation which (according to the Pamphlet) is paid by the poorer classes must (like the other two-thirds of this indirect taxation paid by the wealthier classes) be a contribution towards the *other* " general expenditure " of the nation, which includes not only the Navy, Army and Air Forces, but also expenditure on War and Old Age Pensions, Health, Education, Housing, Unemployment, etc., etc., which is in the main for the benefit of the less rich.

In other words, this contribution of, say, 5/- per week per family from the poorer classes* is mainly for the benefit of the poorer classes themselves and therefore *cannot* be " a transfer from the poorer to the wealthier classes."

Now comes the second delusion, viz., that a Capital Levy would largely reduce the existing burden of taxation upon the poor.

As shown on other pages, the greatest " saving " which the proposed Levy could effect would be about 40 million pounds a year.† The " Labour Speakers' Handbook " estimated that *if* the Levy saved 200 million pounds a year that would reduce by 4/- a week (or forty-eight pence) the burden of taxation on an average working-class family of five persons. Now, as 40 million pounds is only one-fifth of 200 million pounds, it follows that the forty-eight pence must be divided by five, *i.e.*, that the benefit of the Levy would be reduced to less than 10d. a week per family, or 2d. per week per head.

This is not a sufficient " bribe " to induce any intelligent person to accept the risk—indeed the certainty—that a Capital Levy would reduce employment and wages (because the loss of one or two weeks' wages in a year would exceed any possible advantage), and the " Slump " in the value of all " Securities " (see page 85) would cost the thrifty far more than they could ever gain by a Levy.

* Much less from many. See pages 54–56. † See page 15.

THE INNOCENT AND THE GUILTY

In its "Call to the People" of October 24th, 1922, the Socialist Labour Party state: "Labour will not penalize thrift, but will require some restitution from the profiteers out of the huge fortunes made in the war."

Those words appeared above the signatures of Mr. Sidney Webb, Mr. J. Ramsay Macdonald and Mr. Arthur Henderson. If words mean anything they can only mean that the Levy which these gentlemen and their followers propose would *discriminate* between the "thrifty" and "profiteers," but at a glance at the table on page 8 of "Labour and the War Debt,"* published by the same Party from the same "Headquarters," will show that they do not even suggest any such discrimination. According to that "official" table every "man" (which, of course, also means every woman) would be taxed under the Levy according to *how much* he had got regardless of *how he got it.*

The thrifty person who, by years of economy, had saved enough to bring himself under the Levy, the man who had fought and perhaps been disabled, the widow who had lost her husband in the war, and the person who had been impoverished by the war would all, under the Levy, be treated exactly as if they were "profiteers."

The Leaders of the Socialist Labour Party who signed the Manifesto referred to cannot plead ignorance. They must have been fully aware of the fact that the Revenue Officials had reported to the Select Committee on War Wealth that it was *impossible* to devise a Levy which would discriminate between the thrifty and the profiteers. The following extract from the Proceedings of the Select Committee on War Wealth makes this quite clear:

* See Appendix C.

Examination of Sir J. Anderson, K.C.B.
(Chairman of the Board of Inland Revenue)

Questioned by Mr. Pennefather.—You draw no distinction between those who have been parasites and have injured the community by their trading, and those who have traded abroad and brought home large sums of new money for the benefit of the country ?

Reply.—No.

Question.—You make no distinction between the malefactor and the benefactor ?

Reply.—We make the point quite clearly that in the view of my Department it is not possible to make any such distinction for the purposes of a tax of this kind.

Question.—And you make no distinction, as I understand it, in your theory. You make no allowance for such matters as increased wealth arising from increased turnover, from increased capital, from increased effort, from increased risk, or even from inventiveness which may have led a man to make a very valuable invention which has been of great benefit in the war. You disregard all those matters and put absolutely a flat rate. You say : No matter how you have got it, well or ill, you have all got to suffer alike. That is the basis, I understand ?

Reply.—What we say is, if the tax is imposed it must be a tax which can be collected ; and a tax which sought to discriminate in the manner indicated in paragraph 9 would break down in practice. That is all we say. We are quite clear about that.

Question.—Then I think I am right in drawing this deduction—you will correct me if I am wrong—that you regard it as impossible to make any such distinctions as I have suggested, and that the guilty and the innocent must be treated alike, or this special form of taxation must be abandoned ?

Reply.—Certainly.

Question.—Those are the two alternatives ?

Reply.—Yes.

In the light of that evidence it cannot be true that "Labour," through its Capital Levy, will not penalize thrift, or that it will secure any more "restitution from the

profiteers" than from others. The Capital Levy would not extract from the profiteer who had made a fortune out of the war a single penny more than it extracted from the person who innocently inherited exactly the same fortune from his father, or from a person of equal means who was poorer than before the War.

The comparatively poor person who had "accumulated" £6,000 by a lifetime of hard work and self-denying "thrift" would pay exactly the same Levy as the person who, starting with nothing, had by petty profiteering made £6,000 during the war.

Therefore the "Call" of the Socialist Labour Party to "the People" was based on falsehood, and the "People" who responded to that "Call" have a right to resent having been "fooled."

"BETTER OFF"

One hardly expects to find amusement in the writings of "Economists," but Mr. Pethick Lawrence and Dr. Hugh Dalton have both introduced some amusing passages into their books, no doubt unconsciously.

Although it may seem incredible, it is the fact that both of them have endeavoured to prove—and have given examples to prove it—that certain classes of people subject to the Levy would be "*better off*" after paying it!

As Mr. Lawrence's eight examples* were written some years ago, and are rather complicated, we extract—and quote in full—from a chapter in Dr. Dalton's book† headed "The Capital Levy as a Practical Proposition"—two out of five "Cases" which he calls "typical."

Before taking these separately, it may be as well to note that they are *all* based on four fundamental errors which affect nearly all the calculations and conclusions, which should be kept in mind in considering each of the cases commented upon.

(a) Dr. Dalton's "assumption" that a Levy would be "imposed on the scale suggested by the Labour Party, and that the standard rate of Income tax is subsequently lowered from 5/- to 3/6 in the £, the present Income tax allowances and reliefs and the present scale of Super-tax remaining unchanged," is contrary to the facts, as the Socialist Labour Party have definitely declared their intention‡ to increase the Income tax on all incomes over £500 a year and of the Super-tax "on large"§ incomes.

* "A Levy on Capital," page 76.

† "The Capital Levy Explained," page 44.

‡ In their official Manifesto of October 24th, 1922, signed by Sidney Webb, J. Ramsay Macdonald and Arthur Henderson.

§ This may mean anything over £500.

(b) A "Levy" would *not* be—as seems to be inferred—like an "Investment," because a Levy would absolutely take away and would not be "repayable" at any time and would not return any "interest" or "dividends" as an "Investment" would.

(c) Even if the Socialist Labour Party *did* reduce the tax on even small incomes there would be no true analogy between "relief" effected in that way and a rate of "interest," because the "relief" could not be "guaranteed" and might only last a year or so and then be withdrawn, while "interest" *is* permanent *and* guaranteed.

(d) Income tax is not now 5/- in the £—as in Dr. Dalton's calculations—but has been reduced by the present Government to 4/6 in the £, therefore one-third of the 1/6 in the £ which he proposes to take off has already been taken off.

To reduce argument let us now assume that Dr. Dalton's figures are correct. They do not seem to be so, but they will serve as a basis for consideration. He states his "Case 1" thus: "A widow worth £6,000 for the purposes of the Levy and living on an 'investment income' of £300 a year. She now pays £20 12s. 6d. in Income tax, and therefore has a net income of £279 7s. 6d. Under the Levy she would have to pay £50, which, we will suppose, is paid by handing over War Loan to this amount. Her investment income is reduced to £297 10s. a year, but her Income tax is reduced to £14 4s. 4d. Her net income is, therefore, £283 5s. 8d. and she is £3 18s. 2d. a year better off."

This "widow" is presumably selected because widows and widowers *without young children* (and single persons) pay a higher Income tax than if they had families. If widows or widowers had one or more children or dependents or a housekeeper they would pay less Income tax. If, for example, a widow with two children had £300 a year investment income she would now only pay about half of the £20 12s. 6d. a year which is calculated in this so-called "typical" case.* Let us, however, ignore this and take Dr. Dalton's figures and examine the "Practical Proposition" put before this widow.

* If the £300 a year is "earned," or partly so, the present tax is still less. See Appendix A.

In effect it amounts to this. "Let us take £50 away from you. You will *certainly* lose this lump sum for ever and will also lose £2 10s. a year in interest for ever, but on the other hand, *if* the Socialist Labour Party were to reduce your Income tax a further 1/– in the £, they would in that way return to you *out of* your own £50 about £5 a year,* so you would be, say, £2 10s. a year 'better off.'"

Such is the "Bribe!" Fortunately most people nowadays are able to make the following simple calculations:

	£ s.		£
Certain Loss of Capital	50 0	Uncertain Gain of £5 a year (if continued for 15 years).....	75‡
Certain Loss of £2 10s. interest during, say, 15 years†.....	37 10		
Total certain loss	£87 10	Total very doubtful gain	£75

	£ s. d.
Certain actual loss at end of 15 years	12 10 0
Certain actual loss at end of 10 years	25 0 0
Certain actual loss at end of 5 years.....	37 10 0

In Dr. Dalton's anxiety to make the figures suit his argument he has overlooked the fact that a "typical" widow (or widower) with an investment income of £300 a year would probably have some furniture and pictures, some trinkets, and possibly a "reversion" to something under some will or deed, or owned the house he or she lived in, and had perhaps an insurance or endowment policy on his or her life. If so, the value of any or all of those things would be added to the £6,000 invested,

* Dr. Dalton's figure is here corrected by allowing for the recent reduction in Income tax.

† Of course the yearly loss of interest would go on for ever, and the periods of 5, 10 and 15 years are merely taken for convenience of calculation.

‡ If after collecting the levy the Government failed to reduce the widow's income tax, she would be at the end of 5, 10 and 15 years £25, £50 and £75 *more* out of pocket.

which would bring his or her assets up to, say, £8,000, and the Levy would be, not £50, but £250, and the above calculation would show a still greater loss.

A far more common, *i.e.*, "typical," case than that of the selected widow would be a married couple with £6,000 invested and other non-income-producing assets (such as suggested above) worth £2,000, and a couple of children. For them the Levy would come to £250, and the calculation would then work out as follows :—

Certain Loss of Capital	£250 0 0
Certain loss of interest on £250 during, say, 15 years, say, £12 10s. a year	£187 10 0
Total certain loss at end of 15 years	£437 10 0

Married couples with two children and £300 a year only pay £1 a year Income tax. So even if their Income tax were abolished their yearly saving in this way in 15 years would only be £15, for 10 years £10, for 5 years £5

The result would be :

Certain actual loss at end of 15 years £422 10 0
Certain actual loss at the end of 10 years.....£427 10 0
Certain actual loss at the end of 5 years £432 10 0

After widows and widowers and other ordinary people have made such calculations they will perhaps ask Socialist Labour Party Workers and canvassers who offer them this "bribe" to bring some "professional Economist" to explain to them how this can be "A Practical Proposition" to make them "better off!"*

All the other "typical" cases given in "The Capital Levy Explained" will on examination give the same sort of result to varying extents. The only one which presents a different aspect is the following (Case 2) :

"A professional man with a wife and two children, earning £700 a year and possessing £2,000 of property which brings him in an additional £100 a year, making £800 a year altogether. He now pays £82 12s. 6d. in

* See Appendix V.

Income tax, and his net income is therefore £717 7s. 6d. Under the Levy he would have to pay nothing, since his property is worth less than £5,000, and his Income tax would be reduced to £57 15s. 1d. His net income is therefore £742 4s. 11d. and he is £24 17s. 5d. a year better off."

As will be seen from pages 38-39 it is by no means certain that this professional man would *not* be subjected to the Levy. In any case his Income tax would not be reduced by the Levy but would be increased. So instead of being £24 17s. 6d. a year "better off" he would probably be at least £50 a year worse off.

Even supposing, however, that the "professional" classes were not affected one way or the other by the Capital Levy, what would that mean? It would mean that comparatively rich "professional" persons with £800 a year (or possibly £8,000 or more) would escape the Levy altogether, while poor widows with only £300 a year would be taxed on a "Capital" which is less than what a "professional" might easily earn in a year!

Yet this proposal to tax poor widows and not rich professional men is seriously put forward by the Socialist Labour Party as part of their plan to make people pay according to their "ability."

While it may be amusing to consider the absurdity of the Socialist Labour Party's claim—as explained by Dr. Dalton and others—that they would make people "better off" by imposing a Levy upon them, the matter has its serious side, because the question naturally arises, "Are these absurd statements made by the Socialist Labour Party to the effect that people would be better off, through having their money taken away from them, the result of honest stupidity or of stupid dishonesty?" No matter on which horn of that dilemma the Socialist Labour Party prefers to impale itself, the inevitable and final question emerges: "Would our country be 'Better off' if 'Governed' by such 'Financiers'?"

A "LITTLE" (!) TRANSFERENCE

THAT the Socialist Labour Party have at least been successful in confusing the minds of even well-educated, intelligent people is proved by the following letter in the *Times* :*

"Mr. Paine tells us that a capital levy will 'destroy the country's earning power by destroying the capital which is one necessary foundation of that earning power.' But how can you destroy capital, except by spending it on something which brings in no return ? The destruction of capital took place during the war ; we are now suffering for it. A capital levy will only redistribute capital. If this levy is to pay off £6,000,000,000 of war debt, it will pay the money to people who hold War Stock, and who will then have £6,000,000,000 to invest in trade enterprises. Actually, of course, most of the levy would be paid by surrendering War Stock, and only a small percentage of it would be transferred from 'trade' to the Government, and, consequently, back to 'trade' again.

"As I say (and as, no doubt, is clear by now), we know nothing of the higher finance—I and that other ignorant fellow—but however stupid we are, somebody wants our votes. Whether or not we agree as to the justice of a capital levy is another matter altogether ; for the moment, we only wonder why the repayment of capital, brought about by the readjustment of capital, is the 'destruction' of capital."

The writer of the above was evidently quite sincere in his expression of the bewilderment which he and others felt, but he and they are obviously the victims of a "trick" question which has been ingeniously—but unfairly—framed in order to mislead or puzzle them.

* Mr. A. A. Milne, November 9th, 1922. In his book Dr. Dalton calls this "a very sensible letter."

To state an untruth as if it were the truth and then to base a question upon it is an old trick. In this case the trick is played by stating—or suggesting—that no "Capital" raised by the Levy would be "destroyed." That, of course, is not the full truth.

In "Labour and the War Debt," published from the Labour Party Headquarters, it is correctly stated that "British Government securities received in payment of the Levy would *be at once cancelled.*" This can only mean that *they would be destroyed.* It cannot be argued that this would merely mean the destruction of so many "pieces of paper." It *must* mean the *destruction of Capital,* because these securities *are* the Capital of individuals, and would be assessed and levied upon *as such* for the purposes of a *Capital* Levy.

That would mean that, say, 1,500 million pounds of Capital now in the hands of individuals and mainly engaged either directly or indirectly in the financing of trade, commerce or industry would be absolutely destroyed and, *ceasing to exist,* could *not,* in *any* way, be "transferred," "redistributed," "readjusted," or used to *buy* War, or any other, securities.

Only the remaining 1,500 million pounds of the Levy, collected in cash or obtained by the Government by the sale of various other Securities taken in payment of the Levy, could from time to time be used by the Treasury to purchase Government securities and cancel them.

So, on the face of it, individual capital to the extent of, say, 1,500 million pounds would be definitely "destroyed," and with it would be destroyed the "credit" based upon it.

Mr. Clynes also seems to have been puzzled by the "trick" question referred to above, because in the *Times* of November 2nd, 1922, he wrote of the proposed Levy of £3,000 millions as "a little (!) transference of personal property to the State with the certainty that that property would speedily flow to private owners again."

He evidently did not realize that at least half of the property "transferred to the State" in the form of Government securities could *not* "flow"—speedily or otherwise—back to anyone, because it had *ceased to exist.*

The present writer pointed this out in a letter in the *Times* of November 14th, 1922, and as no one even attempted to

dispute the correctness of his assertions, which were in substance identical with the statements made in this Chapter, they may be regarded as an admittedly correct solution of the "trick question" which has puzzled Mr. Milne and Mr. Clynes and perhaps others, and which may yet puzzle those who are not prepared for it.

CAPITAL AND CREDIT

Some "Professional Economists" and all Socialist Labour Politicians seem to dwell in regions so far removed from the world we actually live in, that they are unable to observe the close connection between "Capital" and "Credit," and therefore seem to think that it is possible to touch the one without affecting the other.

For ordinary business purposes "credit" is mainly based on "capital." Of two men with equal "capital" greater "credit" is given to the one who is supposed to have the best character and the most ability, but other things being equal the largest "credit" is given to the one with the most "capital."

That being so it may be broadly stated that to reduce a man's "capital" is to reduce his "credit."* Banks possess books in which are recorded estimates of the "capital" of every trading concern. Some of them are said to have "Breaking-up Departments," which ascertain the "liquidation value" of all the assets in or "behind" concerns to which they give credit.

In any case, it is certain that Banks and Financial Houses are well informed as regards the "assets" of their customers, and exchange information with each other, upon which is based the information as to the "standing" of firms which circulates generally, and which regulates the "credit" given to them both at home and abroad.†

* "There will, in any case (if a Capital Levy were imposed), be an enormous contraction of credit, which will inevitably reduce the volume of trade and dry up the sources from which alone future accumulations of capital, so vital to our continued prosperity, can come." (Mr. W. W. Paine, "*Times*.")

† "Credit, of which capital is the foundation, enables transactions up to many times the amount of the actual capital available to be carried through." (Mr. W. W. Paine, "*Times*.")

The extent to which it would be reduced naturally depends upon the nature of the business. In some cases the credit given for certain purposes runs as high as five times the amount of the firm's assets. In others less. To be on the safe side, let us assume that the *average* trading credit of most firms is only *double* the amount of the firm's "assets." That would mean that if the Levy reduced a firm's "assets" by £1,000, it would reduce its "credit" by £2,000, or a total loss of trading power of £3,000. At this rate a Levy of £10,000 would mean a loss of trading power of £30,000; a Levy of £50,000 a loss of trading power of £150,000, and so on.

The total loss of trading power which the proposed Levy would inflict upon this country as a whole cannot be estimated with any degree of accuracy because no one knows to what extent the credit of private firms rests upon the cash capital and assets shown in a firm's books and how much of it is based upon the fact that one or more of the partners possesses assets which, although outside of that business, are still (the concern being unlimited) liable for the firm's debts.

For example, the books of Messrs. A., B. & C. may only show assets of £20,000, but if Mr. A. is known to have assets outside the business to the extent of £20,000, and Mr. B. to the extent of another £10,000, the firm itself would have much larger "credit" than *its own* balance sheet would justify.

If the private assets of Mr. A. and Mr. B. consisted of Land, Houses, and Stocks and Shares, some Statisticians and Economists may try to make out that their money was not engaged in a private firm but was employed otherwise. That would only be true in a *technical* sense. *Practically* all they have is either "in" or "behind" the firm in which they are partners. If Mr. A. had £10,000 in Insurance Shares, his £10,000 would be *employed* in an Insurance Company's business, but the value of the shares themselves would be "behind" his firm, thus adding to its "credit."*

If we assume that a Levy of 3,000 million pounds would directly and indirectly reduce the Capital "in or

* See Appendix P.

behind" privately owned concerns by say 500 million pounds, that would mean a reduction of trading power for private firms alone of say 1,500 million pounds.

We have still to consider the effect of the Levy upon those Limited Companies—and many of them are very important—whose shares are *not* "fully paid up." The "*liability*" of the shareholders is in such cases one of the principal "assets" of the company, and the knowledge that many of the largest and wealthiest shareholders might be called upon to pay heavy Levies would no doubt shake the credit of such companies (as well as reducing the market value of their shares), and of course the effect of a general slump in Securities* would increase uneasiness as to the ability of shareholders to pay "calls" if and when demanded.

To sum up. The general and cumulative effects—both direct and indirect—of a Capital Levy upon the trading power and strength of this country would be such as to rejoice the hearts of its bitterest enemies and most jealous trade rivals. No doubt a Capital Levy for Great Britain would be extremely popular in Germany and strongly approved of in Moscow.†

* See page 85. † See Appendix N.

THE DEBT AS AN ASSET

It is presumably the difficulty of finding good arguments in favour of the Capital Levy that drives its advocates to using such bad ones.

Of course it *is* difficult—indeed, impossible—to find a sensible argument with which to controvert the simple statement that, if business men who were holders of Government securities had to give up those securities in payment of a Levy without getting anything in exchange, their trading assets would be reduced and they would therefore be compelled to restrict their businesses. Although that fact is obvious, it is evidently regarded as necessary by some *Political* Economists to give some sort of answer if only to confuse the issue.

That is, perhaps, why Dr. Dalton's book contains the following passage: "It is true that War Loan is an asset to its holders, but it is a liability to those who have to pay taxes in order to provide the interest.* Those who stress the first fact and lose sight of the second would, presumably, rejoice to see a National Debt twice, or even twenty times, as great as that which oppresses us now. For this would mean a great increase in trading assets, and, according to the last argument quoted, a great extension of businesses."

Of course no one has ever suggested that there can be such an asset as a security for repayment of a loan and for interest thereon without a corresponding liability, but that is not the point. The point is that, "if the asset were taken away from a business man by a Levy (*i.e.*, without his getting anything in exchange), that business man would be compelled to restrict his business."

* The "holders" and "those who have to pay the interest" are in the main the same persons, or at all events belong to the same classes. See page 59.

That simple statement is not met by Dr. Dalton's argument, which seems to be merely "a red herring" drawn over the trail. His suggestion that those who realize the fact that capital taken out of business would reduce business would therefore "rejoice to see a National Debt twice or even twenty times as great as that which oppresses us now" is as absurd as the reason given for this assumption, which is, "For this would mean a great increase in trading assets" and therefore "a great extension of businesses."

The falsity and absurdity of this statement or argument becomes clear when we consider *how* business men and others *obtained* the "assets" which they now hold in the form of Government Securities. They got them *by paying cash for them*. In *other* words, they reduced their *cash* assets in order to obtain these *paper* assets. Since then the "paper" has been worth both less and more than the money paid for it, but at the time of the exchange the investors got neither more nor less than they *paid for*. So the transaction neither reduced nor increased their "assets," but left them unchanged.

That being so, it would not have increased their "Trading assets" if they had bought "twice or twenty times" more War Loan or other Government Securities, because for every £1 by which their paper assets were increased by purchase of War Loan their other assets would be decreased £1 by the abstraction of cash to pay for the War Loan.

So why should any business men "rejoice" if the National Debt were "twice or twenty times" greater? And why should they think that it would mean "a greater extension of business" if the Debt were greater?

If British business men were such utter fools as some *Political* "Economists" try to make out, this country would not hold the position it does in the world of Finance, Industry and Commerce, a position it would undoubtedly lose if it were mad enough to adopt a Capital Levy.

"INTEREST" OR "TRIBUTE"?

MANY members of the Socialist Labour Party are fairly well off, some even "wealthy," and many of them no doubt did what every other decent citizen did, and when money was needed for the war subscribed all they possibly could to the War Loans. Some went even further and wrote and spoke, urging others to do the same. They and those others who thus helped their country have naturally received and are still receiving *interest* on the money they lent to the State. That they should do so was part of the "contract." In fact the Government in 1918, in an "Advertisement" *appealing* to all classes to lend them money, said: "Whether you *buy* a £5 or a £5,000 Bond the rate of *interest* (5%.) is the same; there is *no difference* in the benefits received *by the poor man and the richest in the land.*"

What can those members of the Labour Party and those whom they induced to invest in War Loan think when they now hear from supporters of the Levy or read in Socialist Labour Party publications that these War Bonds are merely "pieces of paper" which enable the holders to exact "*tribute* from the rest of the community," or when they find in "The Labour Speakers' Handbook" the *interest* described as a "*tribute* of luxuries obtained by wealthy bondholders"? What must they feel when they read in Dr. Dalton's book that the interest which is paid to holders of War Loan is paid "for nothing" as a permanent annual "*tribute*" to "those who are rendering no present service in return for what they receive"? Whatever they think or feel, no member of the Socialist Labour Party has yet publicly protested against the use of words which so stultify many of them and their colleagues.

The reason seems to be that an "atmosphere" favourable to the idea of a Capital Levy can be produced by the use of the word "tribute," which is a nasty sounding word calculated to excite prejudice,* and to obscure the fact that *all* holders of War Loan Securities—whether they be large or small holders—exchanged good money for these "pieces of paper" under a guarantee from the State that they—the lenders—would receive a specified yearly "*interest*" (*not* "*tribute*") in return.

In other words, all this talk about "tribute" is sheer and malignant nonsense, which is as absurd as it would be to suggest that the yearly "*interest*" payable by a Corporation or a Company on its Stock and Debentures is a "tribute" to its shareholders, or that "interest" paid by the State on deposits in its Savings Banks is a "tribute" paid by the State to the depositors. In all cases "interest" is merely a return upon money lent.

The money which these investors lent to the State was mainly money saved in consequence of the owners having spent less than they earned by wages or profits. Having accumulated this "capital" they "hired" it out to earn "wages" in the form of interest—just as if they had "hired" out their own services for wages or profits.

To suggest that small and poor lenders are exacting "tribute" is palpably absurd, but if the payment of 5% per annum to the lenders of £10 or £100 is not "tribute," neither can the payment of 5% per annum to the lenders of £1,000 or £10,000 or £100,000 be "tribute."

Dr. Dalton's statement that the interest is being paid away "for nothing" reveals a greater confusion of mind than one would expect from "a professional economist." The interest is not being paid away "for nothing" any more than interest on Debentures in a Limited Company is paid away for nothing, or that money paid to the butcher for last week's meat is paid away "for nothing." In each case the payment is for "something" which has been previously given, *i.e.*, money or meat. The interest on War Bonds is paid on money lent to the State and spent by the State to win the war. If that money had

* Although the word "tribute" may have other meanings, it generally conveys the unpleasant meaning of something exacted by force by enemy conquerors.

not been lent, and spent, we should have lost the war and be to-day paying a real "tribute" *to Germany*, which would be very much heavier and less beneficial than the "interest" we are paying on our War Debt, which is mainly paid to our own countrymen, and mainly spent amongst them, thus adding to employment. If it had been "tribute" paid to Germany it would have been spent mainly in that country, creating employment *there* instead of *here*.

Dr. Dalton's other statement, that the recipients of the interest on War Loan "are rendering *no present service* in return for what they receive," is pure bathos. What "present service" do depositors in the Post Office Savings Bank, or investors in any Municipal Stock, or in Debentures of any Company, or any small holders of War Savings Certificates render in return for the "interest" they receive? None. The interest is paid to them in respect of their *past* service in handing over their money—whether in small or large sums does not matter—to the State or the Municipality or the Company. Having done that no further service is expected of them in respect of the interest payment.

If Dr. Dalton and his Party really mean that no one should get anything for services rendered in the past, but only for rendering "present services," then logic would compel them to do away with all Pensions.*

In any case, the attempt to make out that "INTEREST" is "TRIBUTE" proves that advocates of a Capital Levy are unable to argue that proposition on its own merits (if it has any), and are therefore compelled to support it by appeals to the class prejudices of the most ignorant and thoughtless.

* Including Old Age Pensions.

A JOB FOR A JOB AND A POUND FOR A POUND

"It is true that the collection of the Levy would result in a certain redistribution of capital and purchasing power as between different individuals and that, *as a result*, a certain number of people, previously employed by the richer contributors to the Levy, *would lose their jobs*. But there would be a roughly corresponding increase in the demand for labour *elsewhere* and in the number of people, previously unemployed, who would find jobs. For, roughly, corresponding to every pound by which the income of a contributor to the Levy would be reduced, the income of someone else, whether a taxpayer or a beneficiary of public expenditure, would be increased by a pound."

Such is the remarkable assertion made by Dr. Dalton* in support of his argument that a Capital Levy would not cause much unemployment.

Such a statement made by an ordinary person might be ignored, but as it is made by "a distinguished Economist" let us examine it with all due respect.

Firstly, Dr. Dalton admits what cannot be disputed, *i.e.*, that as a result of a Capital Levy "a certain (should it not be 'uncertain'?) number . . . would lose their jobs," but he optimistically asserts that they would find jobs "elsewhere." Whether these other jobs would be as suitable, as pleasant or as well paid, whether there would be houses for these people to live in "elsewhere," he does not pause to discuss, but those are all points for working people to think about.

Now let us examine the statement that "for roughly every pound by which the income of a contributor to the

* "Capital Levy Explained," page 64.

Levy would be reduced the income of someone else . . . would be increased by a pound."

(1) If the Levy were 3,000 million pounds it would obviously take that sum away from a number of persons.

(2) A moderate estimate of the average percentage in profits or income which that money (or securities or property) yields is probably about 10 per cent.

(3) 10 per cent. on 3,000 million pounds is 300 million pounds, which may be taken as the loss of income which the Levy would inflict upon the contributors to it.

(4) As already shown* the greatest net "saving" which could result from a Levy of that size would be only 40 million pounds a year, but to avoid dispute let us, in this case, take Dr. Dalton's own estimate of 70 million pounds a year.

(5) If 300 million pounds are taken away and only 70 million pounds are returned it is impossible to replace the 300 million pounds taken with the 70 million pounds.

Therefore the *real* proposition is: "*If* a Levy of 3,000 million pounds reduces the income of, say, half a million people by 300 million pounds a year and *if* the resultant benefit of this is only 70 million pounds a year to the rest of the population (say 42 million people), how much loss of employment would this cause?†

The simple answer which suggests itself is that if the whole of the 70 million pounds a year were used in ways which directly or indirectly give employment (just as the incomes of 300 million pounds a year are used) that as seventy is less than a quarter of three hundred, so the employment which would be given by the 70 million pounds would be less than a quarter of the employment now given by the 300 million pounds, or, in other words, that only one out of every four who "lost their jobs" as a result of the Levy would find other jobs "elsewhere."

If we substitute the now accepted estimate of Sir Josiah Stamp of a "saving" by the Levy of about 40 million pounds a year in place of Dr. Dalton's estimate of 70 million pounds that would mean that only one out of seven would get jobs "elsewhere," and that again would mean not only suffering to the large number thus thrown out of work by the Levy, but also an increase in the rates and taxes.

* See page 15. † See Appendix Y.

"CAPITAL" FOR "LEVY" PURPOSES

It is probable that a great many people "don't bother" about a Capital Levy because they do not realize what "Capital" means in connection with a "Levy." They know they have not got much in "cash" or "securities," and so they think they would be "exempt." A rude awakening may be in store for them.

"Capital" for the purposes of a Levy—as explained by the Revenue Officials*—would consist not only of Cash and money owing, Stocks and Shares, Mortgages, Land, Houses, Factories, Workshops, Machinery Plant and Tools, Vehicles, Trade Stocks (raw or manufactured), Furniture and Pictures, Plate and Jewellery, Agricultural and other Implements, Live Stock, Crops (growing or gathered), etc., etc., but also of such things as Settlements, Annuities, Life Interests, Jointures, certain Pensions, Reversions, Beneficial Leases, Life or Endowment Policies, Interests in Private Businesses (including Goodwill) and "Unrevealed Values" of Shares in Limited Companies.

In fact, *anything and everything* possessed—whether in this country or abroad—which could be said to have a value, would—for Levy purposes—be "Capital." So persons with little cash or securities and quite small *incomes* would have sufficient "capital" to bring them under the Levy. The capital value of the goodwill of a small business might itself come to a good round sum.

The capital value of a settled annuity of, say, £500 a year would depend upon the age of the recipient. If young—with, say, twenty to thirty years expectation of life—he—or she—might find that item alone capitalized at a figure which would bring him or her under the Levy. Therefore, many people who *now* think that they would *not*

* See Proceedings Select Committee on War Wealth.

come under the Levy might be disagreeably surprised to find, when the "capital value" of all they possessed or had an "interest" in or "reversion" of came to be added together and assessed for the purposes of a Levy, that they *were* liable for considerable sums.

People also forget that just as for Income tax purposes the incomes of husband and wife are added together, so for Capital Levy purposes the possessions—or wealth—of husband and wife might also be added together, and the two persons treated as "one," and levied upon accordingly. If, for example, the "capital" of a husband came to £3,000, and the wife's to the same figure, neither of them *separately* would be liable to the Levy, but the two regarded as one might be jointly called upon to pay a Levy on £6,000.

That the "capitals" of husband and wife *are* likely to be so added together for Levy purposes is proved by the fact that this is already done under the German Capital Levy, that it was proposed in the Swiss Capital Levy scheme, and that our own Revenue Officials favoured a similar arrangement when the War Wealth Levy Scheme of 1920 was under discussion.*

This, again, is a matter upon which no "guarantee" of any value can be given by any person or any Party. It is one of the many "details" which must depend upon some future Party and Government.

* See Appendix P, page 140.

"A SLUMP IN SECURITIES"

THE Socialist Labour Party so constantly repeat that a Capital Levy would *not* cause a "slump" in the value of Stocks and Shares that we can only suppose that they believe it, just as some other people believe their delusions, to be true.

Dr. Dalton crystallizes his Party's beliefs on this point when he writes:

"Realization would be on a comparatively small scale and for every seller there would be a buyer ready made, either the contributor to the Levy desiring to buy securities with which to pay, or the National Debt Commissioners, paid in cash by the contributor out of the proceeds of his sale and desiring to buy War Loan and other Government securities for cancellation. The nightmare vision of an all-round slump in the values of securities, everyone rushing to sell and no one coming forward to buy, is thus utterly baseless."

The above statement therefore deserves examination. Let us begin at the beginning. The Socialist Labour Party propose to raise by their Capital Levy 3,000 million pounds, part of which would be paid in cash and part by the "surrender" or "transfer" of securities.

Before we can go further we must arrive at some estimate of how much would be paid in cash and how much in securities. According to the Socialist Labour Party's pet "Economist"—Mr. Pethick Lawrence—about 2,000 million pounds would be paid in securities and only about 1,000 million pounds in cash. On the other hand Mr. Paine reverses these figures. So let us assume that half of the Levy, or 1,500 million pounds, would be paid

in cash and the other 1,500 million pounds in securities to be cancelled.

That would mean that the Government would from time to time, over a period of years (a good deal of the Levy being paid by instalments would only come in slowly), have 1,500 million pounds to spend in buying Government Securities for cancellation.

How would they use it?

Dr. Dalton points out* "that it would be a sound policy to pay off *more* than a proportionate part of the American Debt, using *the bulk* of the cash proceeds of the Levy for this purpose," because "the real burden of external debt is *greater than that of internal debt.*" If that is so, it is surprising that he suggests using only 400 million pounds for this purpose, particularly as he also points out that "no Income tax will be lost" through the cancellation of (*i.e.*, the buying back of) the American Debt Bonds.

These two arguments of his put together are such a strong reason for "using the *bulk* of the cash proceeds of the Levy" for that purpose that it may be assumed that a Socialist Labour Party Chancellor of the Exchequer would feel compelled to so use them and to *entirely* extinguish the American Debt *before* using these cash proceeds in any other way.

That would only leave about 700 million pounds of the cash proceeds of the Levy to be used in this country in buying back our internal "War Loans."

Let us, however, assume that *political* reasons would prevail over *financial* considerations and that our debt to America would only be cut in half, and that the remaining, say, 1,200 million pounds of the cash proceeds of the Levy would be spent—as it came in—by the Government in buying back Government Bonds for cancellation.

That would mean—with an internal National Debt of, say, 6,000 million pounds—that our Government would be an actual or "potential" buyer for, say, £120 worth out of every £600 worth of its own Securities. The "steadying" effect of this upon the value of the remaining 4,800 million pounds worth could only be small.

It may be true that those who from time to time sold

* "Capital Levy Explained," page 82.

their Government Securities to the Treasury would—also only from time to time—have 1,200 million pounds with which to buy *other* British Securities *if they were able or desired to do so*, but in a very large number of cases they might be either *unable* or *unwilling* to do so.

If, for example, a business man sold to the Government Securities which were lodged with his bank as "collateral," the proceeds of those Securities would not go to the man for reinvestment, but would go to the bank to repay the advance made against them, and the bank being pressed for "cash" by many others (who wanted it on account of the Levy) would not be likely to buy other securities with it.

Then again the fact that many business men had depleted their cash working capital in order to pay their Levies would dispose them to keep the cash obtained by sales of securities "loose" and in their businesses, and the payment of Levies by "surrender" to the Government of securities, or by sales of other securities in order to raise cash for the Levy, would cause a loss of dividends and so reduce the *incomes* of very many people, who in such cases would require the proceeds of the securities they had sold to the Government, not for "reinvestment" purposes, but for "living" purposes.

So analysis makes it plain that, if a Socialist Labour Government used even as much as 1,200 million pounds to redeem internal debt, only a portion of that—probably less than half—would provide buyers for any sort of securities, and that would *not* mean "a buyer for every seller," or anything like it, and the idea that people need not press securities for sale because banks would lend money upon them is foolish. Banks are never willing to "lock up" their funds by lending large sums for indefinite periods upon unsaleable securities.

Apart from that, as Dr. Dalton admits (in another connection):

"It is not the amount of 'good collateral' in existence which determines how much the banks will lend. It is the 'lending capacity' of the banks, which depends upon quite other considerations, the most important of which is the amount of their deposits. Thus it is sometimes a

matter of complaint in business circles that banks refuse to lend as much as business men demand, even though 'good collateral' is offered up to the full amount demanded. There is, however, nothing magical about a bank. Like an individual, it cannot actually lend, nor safely promise to lend, more than it has got."

And as Mr. W. W. Paine, of Lloyds Bank, writes:

"The deposits with the banks may broadly be taken as 2,000 million pounds. . . . To a very large extent it is drawn from private depositors in the country, and is utilised by the banks in London and in the principal industrial centres in making loans and granting overdrafts to traders, and in financing the import of food and raw materials—wool, cotton, metals and the like—upon which the whole trade of the country depends."

So if the banks were to lend large sums on securities, *that* would paralyse the whole trade of the country and create unemployment on a vast scale.

Therefore it is evident that sellers of stocks and shares and securities of all sorts would inevitably preponderate largely over buyers, and, as everyone knows, an excess of supply over demand *always* means a decline in values.

Stocks or shares would be "forced" on to the market to be sold for what they would fetch, not only by the poorer classes, but also by the richer classes. Each class would "react" upon the other. For example, few millionaires—if any—could pay a Levy of £502,800 (more than half of their total assets) in cash or Government Securities. They would *have* to *sell* a lot of things of all kinds (thereby causing a "slump" in the values of *all* those classes of things) and among them, no doubt, large quantities of all sorts of stocks and shares held by Trade Unions, Friendly Societies, etc., and by "small" people not subject to the Levy whose shares represented years of pinching and saving.*

* This *enforced* "liquidation" of big blocks of shares held by a number of rich people *all at about the same time* would have a much more disastrous effect upon values than the *occasional* sale of big blocks to close the estate of a deceased person.

It is quite conceivable that *competitive* efforts to sell by a few rich people with large holdings in certain classes of shares would—in the general financial conditions which would prevail after or during a Levy—reduce quotations by 50 per cent.*

The fact is that we do not live in "watertight compartments" of classes. We all act and react upon each other, and we cannot hurt even "Millionaires" at the "top of the tree" (much as we might like to) without at the same time hurting a larger number of poor persons at the bottom of it.

Many "Miscellaneous" Securities (although perhaps quite good) are always difficult to realize either through being either "unquoted" or through having only a purely local and very limited market. These would suffer the most severe depreciation.

Assuming that the total value to-day of *all* Securities and stocks and shares of all kinds held in this country is about 30,000 million pounds† an average "slump" of, say, ten per cent.‡ caused by the Levy would mean a loss in value of about 3,000 million pounds, or as much as the total sum of the Levy itself.

Another factor which would contribute to a "slump" in *all* securities if a Levy were imposed (or even seriously considered) would be "want of confidence" which would result from three causes:

(1) Fear of a "panic" (See pages 46 and 143).

(2) Fear of a possible repetition of or extension of the Levy§ (see page 44).

(3) The knowledge that the Government held and might

* "At a price" there would no doubt be buyers. Foreigners would come in anxious to get controlling interests in British Companies (if only to reduce or remove competition) on "knock-out" terms.

† A very *rough* guess suggested by some Inland Revenue figures for 1921.

‡ It would probably be very much more.

§ As Mr. Philip Snowden, M.P., admitted in the *Morning Post* on June 28th last—"If it were feared that it (*i.e.*, the Capital Levy) might be repeated, commercial enterprise and saving would be disastrously affected."

at any time offer for sale* many million pounds worth of various securities received by it either in payment of the Levies or as security for future payment.

So consideration shows that it *must* be a "delusion" to suppose that a Capital Levy would *not* cause a "slump" in securities, which would affect *all* classes.

* No Government could possibly undertake not to part with these securities for any term of years. National necessities might at any time *compel* the Government to sell them for what they would bring.

"MILLIONAIRES"

Most of us are probably inclined to feel a natural—but no doubt wicked—envy or perhaps even dislike of those who are very much richer than ourselves. The £100 a year man envies the £500 a year man. The £1,000 a year man the £10,000 a year man, and so on. And they all unite in envying or disliking the "millionaire," who in his turn perhaps envies and dislikes the "multi-millionaire"!

Such feelings may be natural, but when we come to consider the matter dispassionately, may it not be that even millionaires have their uses? (Provided, of course, that they do not get their millions in nefarious ways.)

Not many of our millionaires can make their millions out of *us* in this country. We are numerically a small nation, therefore our millionaires must in the main get most of their money by "exploiting" the larger world outside. That means that they are mostly collecting or have collected large sums in other countries to bring home to be spent here, or to be used in our industries, and so to promote employment. Also to be taxed here and so to contribute to our National Revenue.

An illustration of this latter point is to be found in the following, from "Whitaker's Almanack" (1923):

"The severity with which taxation presses upon industry is more easily perceived from a concrete example than from general observations. Production that is to be successful in competition for the absorption of the articles to be produced requires extensive plant, which can only be installed by the aid of capital to be sunk in the venture. Take, therefore, the case of a wealthy man, say of about forty-five years of age, in the prime of life, who has acquired,

or succeeded to, a capital of £1,100,000, all sunk in a highly-organized and successful industry giving employment to large bodies of men (and women), and yielding a net return of 7 per cent. The owner's normal expectation of life is about twenty years and he desires the business to continue on his death. His return on his capital and energy and foresight appears to be £77,000 per annum. Income tax and Super-tax take at once about 11/3 in the £1 of this sum—over £43,300, leaving him £33,700 per annum. But, if he and his heirs are not to dissipate the capital, he must make provision to meet the Death Duties on this sum, calculated at 30 per cent. *on the capital value* for Estate Duty, and a further sum for Legacy Duty, varying from 1 per cent. to 10 per cent. according to the degree of affinity of his successor. Assume the low average of 3⅓ per cent. for this duty, making in all 33⅓ per cent. in Death Duties, or nearly £367,000. To ensure the payment at his death of this sum, and a sufficient further sum for the Death Duties thereon, he must needs pay an annual premium of about £3 10s. per cent. or nearly £13,000 per annum, thus reducing his income from his fortune to —in round figures—£20,000 per annum, out of which he has to pay indirect taxes and local rates, etc. These two taxes alone reduce his return on his capital, his energy, and foresight, from 7 per cent. to less than 2 per cent."

The above shows the effects of high income taxes, and if the Capital Levy would *reduce* these taxes (as certain Economists who wrote in favour of the Levy have assumed it would do) *that* might be *one* argument in its favour, but as the proposal of the Socialist Labour Party is not only to impose the Levy but *also to increase* the standard rates of Income tax and increase the Super-tax and Death Duties, that argument cannot *now* apply to the proposed Capital Levy.

Not only that. As "Whitaker" shows, the gross income of this typical millionaire is by present taxation and provision for Death Duties, etc., reduced to a *net* income of £20,000 a year. If the proposed Levy (50 per cent.) were imposed upon his capital it would reduce it to, say, £500,000.

Even if this had no worse effect than to bring his *gross*

yearly *profits* down to half of £77,000, or say £38,000, to reduce his *gross* income (after paying income taxes on his reduced income) to say £25,000 a year and his *net* " spending income " down to say £15,000, this would mean a great loss to the National Revenue in Income and Super-taxes and Death Duties, *unless* those taxes and duties were *increased* to an extent which would balance that loss.

As " Whitaker " states, at the present* rate Income and Super-taxes (11/3 in the £) would bring in £43,000 on a profit of £77,000, therefore, in order to *prevent* a loss to the Revenue resulting from the Levy having cut the gross profit in half (*i.e.*, to say £38,000) it would be necessary to impose upon this £38,000 Income and Super-taxes amounting to £43,000, or about 22/- in the £ ! ! !

As this could *not* be done the State could not get any *increased* Income and Super-tax, but would have to take £5,000 a year *less*.

" Whitaker's " millionaire is evidently not an " idle " person. He seems (as far as £43,000 out of his present gross profits of £77,000 a year is concerned) merely to be acting as an (unpaid) collector for the Government. The balance he must either spend or save. What he spends (nominally on himself and perhaps selfishly in intention) must, in fact, flow into the pockets of *others*, *i.e.*, his own servants, employees, and tradesmen and the work-people, etc., employed by the latter and by those whose manufactures they sell.

What he saves, he must invest, or leave with his Bankers, and so it must in some way flow back into commerce or industry.

Need we grudge " Whitaker's " millionaire the return of 2 per cent. " on his capital, his energy and foresight," which is all he seems to get *at the finish?* Is it too high a rate of payment considering his uses, particularly if he collects " new wealth " from foreign countries?

There are said to be about 300 millionaires in this country. Would it be better for us if we had fewer? Or better if there were more of them? Are there not two sides to that question?

* Since the " Whitaker " article was written Income tax has been reduced 6d. in the £, but to avoid alterations the calculations are based on the figures given in " Whitaker."

Comparisons between millionaires with £30,000 or £40,000 a year and poor men with only very small incomes are, no doubt, "striking," but do they lead anywhere? Putting all sentiment aside, is not the real question: "How far can we carry the taxation of those who have much without still further impoverishing those who have little?" "To make the rich poorer and the poor richer" is a good-sounding phrase and a laudable ambition, but if the attempt resulted in making rich and poor *both* poorer—which is what a Capital Levy *must* do—it would be a miserable achievement.

PART VI

ELECTION ADDRESSES AND THE LEVY

As the Socialist Labour Party has many "Leaders" it would occupy too much space to deal with all their "Election Addresses" of last November. Therefore only a few are referred to below.

Mr. Philip Snowden, Mr. Sidney Webb, Mr. J. H. Thomas, Mr. R. J. Clynes, Mr. Will Thorne, and Colonel J. C. Wedgwood (for reasons best known to themselves) *all abstained from making any reference to the Capital Levy in their Election Addresses.*

The Capital Levy being—as Dr. Dalton says*—"A first-class political issue at the General Election," these omissions are very remarkable. But it is for those gentlemen's constituents to demand explanations from them on that point, and is only necessary here to point out that none of them can claim to have received any "Mandate" from their Electors in regard to a Capital Levy.

Mr. Ramsay Macdonald states in his Address:

"The Labour Party believes (and *practically every living Economist of note,* and some of the ablest business men share the belief) that in order to reduce taxes, lower the costs of production, and bring down prices, a great part of our Debt incurred at ruinous rates in the war, whilst the lives of men were being conscripted, should be paid off."

It will be observed that Mr. Ramsay Macdonald does not venture *to name* a single one of these "Economists" or business men, and his statement is contradicted by his follower Dr. Dalton, who, in his book (published six months *later*), says that "few" of the Economists "have spoken their minds publicly on the Levy." (See pages 48–51.)

* "The Capital Levy Explained," page 7.

Mr. Macdonald also states that his Party "therefore proposes to create a special War Debt Redemption Fund by a Levy upon a graduated scale on accumulated wealth above £5,000. This would be borne *mainly* by those who have *taken from Society far more than they have ever given to it.*"

This is obviously incorrect, as according to official estimates (1920) the number of people with small capitals, say, £5,000 to £10,000, is about 146,000; with moderate capitals, say, £10,000 to £25,000. about 120,000; or in all, about 266,000 persons. The total number possessing above £25,000 was only 74,000. So for every *one* person who can have "taken far more than they have given to Society" and who would be subject to the Levy, there would be nearly *four* persons of small or moderate means mainly the result of "service" of some sort who would be levied upon. The sums contributed by the 266,000 persons might be less than the sums contributed by the 74,000 persons, but being contributed out of smaller means the burden of the Levy might be relatively as heavy upon the larger—and poorer—number of persons.

Mr. Ramsay Macdonald adds that the Levy "would *not oppressively* touch the *legitimate* savings of *industrious* people." This again is untrue. The Levy *would* "touch" the "legitimate savings" of "industrious people" just as "oppressively" as it would touch the illegitimate (?) savings of idle people. The Levy would not—indeed could not—discriminate (see page 62), and there can be no excuse for a "Leader" like Mr. Ramsay Macdonald making in his Election Address a statement which he *must* have known was incorrect.

Mr. Arthur Henderson's "Address" is equally mendacious. In it he states that he advocates "a special levy upon fortunes in excess of £5,000, and *particularly the huge fortunes made by a few individuals during the War.*"

The Capital Levy would have nothing to do with whether "fortunes" (from £5,000 upwards) were made before, during, or after the War, or were *less* than before the war, or had been not made but inherited or transferred by a marriage settlement! If this Right Honourable gentleman did not know that, when he inserted the above quoted

words in the "Election Address" he may plead "ignorance," but, if not, he must admit that in order to gain votes he inserted words which were untrue.

He went on to say: "Labour does not propose to touch the *small savings* of *thrifty* people." That again is most misleading. If "thrifty" elderly persons had been making "a small saving" of a little over £100 a year for say 30 years, that would (with interest thereon) amount to sufficient to make them liable for a substantial sum under the proposed Levy, while younger persons starting with nothing, who had made a good deal out of petty profiteering during and after the War, might have saved nearly five times as much each of those ten years and yet escape the Levy!*

Mr. Stephen Walsh in his "Address" begins his references to a Capital Levy by stating that "During the War *about* 350,000 people *amassed* wealth *amounting to* 4,000 *million pounds.*" As this is merely the same misstatement of which Mr. Snowden, Mr. Priestley, and others have been guilty it would not call for further comment were it not for the fact that Mr. Walsh was a member of the Select Committee on War Wealth, and was present and agreed with the Chairman and the rest of the Committee that it was "most important that no misleading figures (such as those quoted above and used by Mr. Walsh himself in his Election Address) should get into the public mind."†

Mr. Stephen Walsh will no doubt see fit to explain—if he can—how he came to insert in his "Address" to his constituents a statement which he—in particular—should have known to be misleading.

To sum up. Out of the nine "Leaders" whose Election Addresses we have examined, six have to explain why they said *nothing* about the Capital Levy and three have to explain away—or apologize for—what they *did* say about it!

* This raises an interesting point, viz., What percentage of income can be saved a year, and for how many years, without rendering the saver liable to the charge of being an "accumulator" who ought to be levied upon as such?

† See "Proceedings of the Select Committee," pages 34, 35.

"A CAPITAL PLAN?"

UNDER the would-be facetious heading of "Is a Levy on Large Sums of Wealth a Capital Plan to Save Us?" a large "leaflet" or small "handbill" "by the Right Hon. J. R. Clynes, M.P.," has been used for election purposes.

A mere statement that the Right Hon. gentleman (a Privy Councillor and (then) Leader of the Labour Party) had been guilty of such a production might be regarded as unbelievable. Therefore the handbill itself is—for the removal of doubts—reprinted *verbatim* beneath. The only alteration being that in order to draw attention to special words they are underlined, and "index numbers" are inserted here and there in order to connect particular misstatements or arguments with the comments upon them which follow.

"IS A LEVY A CAPITAL PLAN TO SAVE US? (1)

BY THE RIGHT HON. J. R. CLYNES, M.P.

In addition to the evil results of failure to make a real peace, the war has left the nation with a *debt* of seven thousand million pounds. The people who own little else own that! (2) Out of labour, industry, wages, and service of all forms there is taken in taxation £1,000,000 a day to pay the interest on that debt. (3) The debt cannot be repaid by savings, by sinking fund devices, or by ordinary revenue. What plan has any other party to lessen or to remove this burden? If there is an alternative to the Labour plan, why is it not produced? There is none. (4)

A BIG LEVY NOW ON THE POOR

This debt is a heavy Levy upon millions of poor people. In taxation and in the damage done to trade and business by the weight of the debt, Labour suffers terribly. (5)

Many necessities bear a big Levy (or tax). (6)

On tea the Levy is nearly seventeen million pounds per year. A portion of that is paid by every poor woman who buys half a pound of tea. On each pound of tea she pays 8d. as a Levy. The cheap tea of the poor is levied as much as the rich. (7)

The Levy on sugar is thirty million pounds a year. (8) On tobacco sixty million pounds a year. (9)

The yearly Levy on beer is more than the total of all these sums put together. (10)

In the war-time all who were free and fit to fight had to. No kind of plea about difficulties, personal losses, or hardships shielded a man from the risk of death. If it was right to require men to die when the land was in danger of an outside foe, it is not wrong to require those who are able to pay a little to defend us against the dangers resulting from this intolerable debt. (11)

It is totally untrue to say that ordinary shopkeepers and business people would have to pay any Capital Levy, though it is true that Governments and landowners have, by taxation and heavy charges, made small shopkeepers pay many a Levy. (12)

The people who pretend to be the friends of shopkeepers are the people who resist any Levy on the huge profits of great capitalists (13) made during the period of the war. (14)

How Would the Levy Work?

First, nothing would be paid by anyone possessing property valued at less than £5,000. (15) On the first £1,000 above that figure, the Levy at 1 per cent. would be £10. (16) Two years could be given to pay it. Anyone so favoured easily could pay £5 in one year. (17) The scale would ascend according to the size of the capital possessed.

How it Would Help Business

Commercial men and small or medium businesses would not be touched by a Levy. (18) They are now heavily burdened by taxation and rates which a Levy on Capital would reduce. (19)

A Levy would not harm business, it would improve it. (20)

Labour has the greatest interest in assisting business to its feet. It is not the policy of Labour, but of others, which has crippled trade and business. (21)

It is monstrous that millions of men who went to the war should come back to find that they have to provide interest for the money which many were able to loan in huge amounts while other men were away fighting. (22)

The Prime Minister on the Levy

Labour does not make a proposal and run away from it. (23)

Will the present Prime Minister stand by his word? (24) Speaking in the House of Commons on Wednesday, November 14th, 1917, Mr. Bonar Law, whilst not in favour of a Levy on Capital while the war was on, made this declaration :—

> 'The question of whether or not there should be Conscription of Wealth *then* is entirely a matter of expediency, and I think it is a matter which concerns mainly, not the working classes, but the people who have money. In my opinion it is simply a question of whether it will pay them best, and pay the country best, to have a general Capital Levy and reduce the National Debt as far as you can, or have it continued for 50 years as a constant burden of taxation.' (25)

The Debt is far too big to be dealt with by any other plan, and if the plan of a Levy on large fortunes (26) is not tried, the Debt will have to be carried for all time, (27) and industry will be doomed to further ruin. (28)

No one has produced any other plan. It is a real remedy (29) for a desperate ailment.'

(1) The first comment on the above is that the very title of the handbill is misleading. The Levy would *not* be confined to "large sums of wealth." Persons possessing £6,000—or possibly less*—of such assets as would be valued for a Levy, with incomes of only £5 a week or less coming in from their "capital" and possibly

* The "Exemption Limit" might be lowered. (See "Why £5,000?" page 42.)

with large families to support, have *not* "large sums of wealth."

(2) The less people have the less of the Debt they "own." Those who are too poor to pay Income tax contribute £7 per head a year towards the *whole* expenses of the country (see page 54), while rich people pay many thousands a year each towards it.

(3) According to this there can be no "idle rich." No one who is not engaged in "Labour industry" and "service." If it does not mean this the statement is, on the face of it, absurd because the "£1,000,000 a day" referred to is collected from the *whole* population and mainly from the richer people. (See pages 54–58.)

(4) The "alternative" to a foolish proposal is always the same, viz., to reject it and to go on being sensible.

(5) A Capital Levy would damage trade and business more than payment of the interest on the Debt. Under it Labour would suffer still more "terribly."*

(6, 7, 8, 9) If the Socialist Labour Party abolished, or even largely reduced those "Levies" (or "taxes") out of any "saving" effected by the Capital Levy, it could not keep any of its *other* promises. (See pages 15 and 130.)

(10) According to the "Labour Speakers' Handbook" *none* of the proceeds of the Levy would be used to reduce the tax on beer or spirits. (See page 148.)

(11) See page 106.

(12) It is not true that "ordinary" shopkeepers and business people would *not* have to pay a Capital Levy. Ordinary shopkeepers and business people have "assets," including values of furniture, fittings, plant, machinery, stock in trade, book debts, raw material, insurance policies and goodwill, etc., etc., worth—all added together—well over £5,000. (See pages 83–84.)

(13) The Capital Levy would not fall only on "the huge profits of great capitalists," but also on quite "small" people. (See answer to No. 1.)

(14) The Capital Levy would *not* discriminate between those who made profits "during the period of the war" and those who made money before or since. (See page 63.)

*Mr. Ben Tillett, M.P., said at Manchester, Nov. 1922: "A capital levy would bring us into the same category of financial ruin as there is in Austria and Germany."

(15) For reply see No. 1 above, also "Why £5,000?" (page 42).

(16) The Levy on £6,000 would be not £10,* but *five times as much, i.e.*, £50. (See Appendix C.)

(17) See reply to No. 16. £5 would have to be paid for *ten* years, not *two* years.

(18) See reply to No. 12 above.

(19) A Capital Levy would not *reduce* but would increase Taxation. (See page 130.) Mr. Clynes is the only person to suggest that a Capital Levy would reduce Rates. It could not. It would increase them by throwing more unemployed people on to them.

(20) It is impossible to "improve business" by taking away its principal "foundations," *i.e.*, Capital and Credit. (See page 73.) That *must* "harm" it.†

(21) Trade and business have been "crippled" by the necessity of winning the war. Was not that Labour's "policy" also?

(22) For reply, see "Who pays the Interest?" (page 59).

(23) Has not the Socialist Labour Party "run away" from its "proposals" to raise a Levy of 4,000 million pounds and to expend 200 million pounds a year out of it in reduction of taxes and for Social Reforms? (See Appendix W.)

(24 and 25) Mr. Bonar Law has considered, as he said he would, whether a Capital Levy is now "expedient" and has come to the conclusion that it would be "insanity."

(26) It is *not* proposed to confine the Levy to "large fortunes." (See No. 1 above.)

(27) If we had not incurred the Debt to win the war we should "for all time" be paying "tribute" to Germany instead of "interest" to ourselves or to our fellow countrymen.

* According to the *Manchester Guardian*, Mr. Clynes seems to have repeated this misstatement at Harpurhey, during the General Election (Nov. 14th). This is remarkable, because the "scale" adopted by his party (see Appendix) had been published long before that and he himself had given the correct figure (£50) in an article in *Imperial Commerce* in July, 1922.

† Mr. J. H. Thomas, M.P., said at Derby, Nov. 3rd, 1922: "A levy might shake confidence in the stability of the country, depreciate the exchange and thus increase the cost of living."

(28) The "remedy" of a Capital Levy would be worse than the "ailment"—desperate though it may be

In view of the difficulty of finding words which are adequate (and yet within the limits of politeness) with which to describe such a production as this "Handbill," written by the Rt. Hon. J. R. Clynes, M.P., readers must be left to express themselves as they think fit. Those of a statistical turn of mind may care to calculate the number of errors and misstatements to the square inch. In that respect it might perhaps break all records.

FALSE SUGGESTIONS AND FOOLISH COMPARISONS

ALL Members of the Socialist Labour Party are not really in favour of a Capital Levy, but some who do favour it are past masters in the art of making false suggestions without actually stating what is *not* true by suppressing, ignoring or minimizing what *is* true.

For example, the truth is that the Labour Party in their official manifesto headed a "Call to the People," dated 24th October, 1922 (*i.e.*, just before the last General Election), definitely declared, in connection with the "Capital Levy," that they would *increase* the Income tax on all incomes over £500 a year and also the super tax and Death Duties.

Since that date (*i.e.*, in March, 1923) Dr. Dalton and Mr. Pethick Lawrence have published, the former a book and the latter a Pamphlet. The book* contains a few more or less vague words here and there which might possibly be construed by a very careful reader with a legal mind into a "hint" that in some circumstances the Income tax, etc., might possibly be raised. But as against this it contains on page after page repeated assertions or suggestions that as a result of a Capital Levy the standard rate of Income tax would be reduced.

The only impression which can be left upon the ordinary reader's mind by the book as a whole is that the Socialist Labour Party, to which Dr. Dalton belongs and in whose interest he writes, intends *not* to *increase* the Income tax but to *reduce* it.

The Pamphlet† is more guarded than the Book, but it states :—"The *Income tax* hangs like a millstone around the necks of men and women engaged in the professions

* "The Capital Levy Explained."

† "The Capital Levy. How the Labour Party would deal with the War Debt."

and in business." Also, "if a Capital Levy be imposed it will be possible to abolish the taxes on food* and to reduce the postal charges and the taxes on tobacco *and the Income tax*." It adds that "the effect of the Capital Levy will be to give relief to 'Co-operative Societies' on such *Income tax* as they actually pay." Later on it repeats that one of "the results of the Levy will be to reduce *Income tax*."†

Mr. Pethick Lawrence's Pamphlet does not even once mention or even *hint* at the fact that the Socialist Labour Party, so far from *reducing* Income tax as he suggests, are pledged to increase it and thereby add to the weight of the "millstone" which he refers to as "hanging around the necks of men and women engaged in the professions and in business."

So in the Pamphlet, as in the Book, the general impression left upon the minds of readers is the false one that to vote for a Capital Levy is to vote for a reduction of the standard rate of Income tax.

This naturally raises the question why the Book and the Pamphlet should be so written as to leave false impressions upon the minds of their readers, many of whom would be speakers or writers for the Socialist Labour Party, whose speeches or writings would be founded upon them.

Mr. Pethick Lawrence, indeed, goes beyond suggestion when he states as if it were a fact‡ that "when men's lives were conscripted in the war rich men's *incomes* were *not* conscripted."

* As already explained the maximum saving of 40 million pounds which the Levy could effect would not enable even the food taxes to be *abolished*, and if the whole of the 40 million pounds was used to *reduce* them it would leave nothing for the other purposes named.

† It even goes so far as to state that the Levy would lower the Income tax of a "workman with total wealth £100, wages £5 a week." If that man got that wage *every* week in a year it would come to £260, or with 5% interest on his "total wealth" (!) of £100, say £265 a year. If he was married or was a widower with housekeeper and with one or more children he would not be paying *any* Income tax, so a Levy could *not* reduce it! (See Appendix A.)

‡ In "How Labour would settle the War Debt."

The Rt. Hon. J. R. Clynes, M.P., perhaps intended to suggest much the same as Mr. Pethick Lawrence when, in *Imperial Commerce* (July, 1922), he wrote: "To save the country physically millions of men had to offer their lives. To save the country financially those who have substantial capital must now offer a share of it," which seems to imply that they had not done their share in the past and were not "now" doing it.

The untruthfulness of any such suggestions is made clear by the real fact that the standard rate of Income tax was 1/2 in the £ before the war (1912–13), and was raised to 6/– in the £ during the war and is now 4/6 in the £.

The total Income tax collected in 1912–13 was £41,500,000 and in 1920–21 £350,000,000,* an increase of over 308 million pounds a *year*. Super tax was raised until, combined with Income tax, *over half* of the incomes of the very rich *were* "conscripted," and so far from shirking heavy taxation the Bankers had a meeting in London in 1915 to urge upon Mr. Lloyd George—who was then Chancellor of the Exchequer—that he should at once increase taxation to meet the costs of the War.

When the figures for the ten years 1914–1924 can be worked out, it will probably be found that the *increase* of income and super taxes paid during that period amount to about 3,000 million pounds, or to as much as the proposed Capital Levy.†

Another example of how "Wealth" was "conscripted" is that while "direct" taxes (such as Income and Super taxes), which fall mainly on the richer classes, were increased to eight times as much as they were before the War, "indirect" taxes (such as the Food and Drink taxes), which press heavily on the poorer classes, were only about doubled.

Another false suggestion is contained in "Labour and the War Debt" (published by the Labour Party), viz.:

"Indeed the Labour Party policy is now supported by the Reparation Commission. The representatives of

* "Whitaker's Almanack," 1923, page 495.

† Some large addition to this figure ought to be made for the yield of the Increased Death Duties, Excess Profits Duty, a great part of the Corporation Profits Tax and of other increased taxes largely paid by the richer classes, during those ten years.

our Government as well as of other Governments on this Commission on March 21, 1922, announced to the German Government that if they (*i.e.*, the Germans) could not raise money otherwise they should examine the measures necessary to effect a capital payment by other means, in particular by a levy on the actual movable and immovable property in Germany." (Cmd. 1634–1922.)

The Reparation Commission did *not* in any way suggest that any of the victorious Allies should impose a Capital Levy *in their own countries*. Nor did they suggest that it would be a good thing for Germany to impose (another) Capital Levy. They were looking at it from the point of view that the victorious Allies *must force* defeated Germany to pay what was due to them for Reparations, etc., no matter how much that hurt Germany.

To suggest that *that* meant that the Reparation Commission " supported " the policy of our Labour Party in proposing a Levy *in this country* must be either a very stupid or a very false suggestion, and in any case is an insult to the intelligence of the electorate.

So again the question crops up : " Why " do advocates of the Levy make suggestions and even statements which are not merely false but dangerously so, because they can be—and are—repeated by others as arguments in favour of Communism and Revolution ?

EX-SERVICE MEN AND THE LEVY*

By vague phrases the Socialist Labour Party seek to convey the impression that in some mysterious way a Capital Levy would be a "Measure of Justice" to those men who fought and suffered in or through the War, which would secure "equality of sacrifice" between combatants and non-combatants.

It will, however, be seen from the preceding pages† that no such discriminations are either intended or possible in a Capital Levy.

In the great majority of cases the men who fought or served would, no doubt, escape the Levy *because* they did not possess £5,000 (or £1,000, or whatever "Exemption Limit" might ultimately be fixed).‡ But a still larger number of men who, for various (and often excellent) reasons, never "served" in the military sense would also, having less than the limit, escape the Levy.

In that respect the "V.C." man and the conscientious objector would be equal under the Levy. If neither had £5,000 or £1,000 or whatever it might be, *neither* would be levied upon. If *either* was "worth" over the limit, he would have to pay.

Ex-service men worth *over* the Exemption Limit—so far from obtaining "equality of sacrifice" through the Levy—would find themselves called upon to make *two* sacrifices for *one* sacrifice made by non-combatants of *equal age* and with *equal possessions*.

Example 1. Ex-service man A., age 40, "worth"

* All that is written under this heading applies also to women who "served," either as Nurses or in any other capacity. See Appendix P, para. 861.

† See pages 62–64. ‡ See pages 42–43.

£8,000, earned before the War in the business or profession which he *gave up in order to fight*, and who had lost limbs or health in War. Levy for him, £250.

Non-combatant B., age 40, "worth" £8,000, earned before *or during* the War in his business or profession, which he had not to give up and which, perhaps, was more lucrative owing to others—like A.—being called up or disabled. Levy for him, £250.

Example 2. War Widow C., age 40, "worth" £6,000—say £300 a year—left to her by a fallen hero who used to earn, say, £1,000 a year at his business or profession before the war. Levy for her, £50.

Widow, age 40, "worth" £6,000—say, £300 a year—left her by non-combatant husband who had little or nothing before the War and who made that £6,000 by petty profiteering during and after the War. Levy for her, £50.

These illustrations prove that it is untruthful of the Socialist Labour Party to write or speak about the Levy as if it would in any way secure an "equality of sacrifice" as between combatants and non-combatants. It would *not*, because a great many who served, both as privates and as officers, would be liable to the Levy, and in a still larger number of cases *their parents* would be liable to it, and so their inheritances and those of their brothers and sisters would be reduced by it.

It is, of course, true that Income tax, Super tax and Death Duties fall with equal severity upon Ex-service men and upon War Widows as upon those who have neither served nor suffered, but no Party endeavours to gain support for those taxes, *on the ground* that they secure "equality of sacrifice" between combatants and non-combatants.

It may not be possible to differentiate in taxation between the two classes, but if so why should the Socialist Labour Party claim that a Levy *would* differentiate when it could *not* possibly do so?

There seems to be only one possible explanation, which is that they seek to gain the *votes* of Ex-service men and their friends by misrepresenting the facts.

Another similar argument to the last, which is much used by the Socialist Labour Party, is to the effect that

"As men were conscripted to fight in the War, justice demands that Wealth should also be conscripted to pay for the War,* by a Capital Levy, which, they say, would secure 'Equality of Sacrifice.'"

This argument, like others of the Socialist Labour Party in favour of the Levy, will not bear examination.

If one list could be made of all who served in the War, and another of all who would be liable to the Levy, it would be found that in a very large number of cases *the same names would appear in both lists.*

Therefore, if "equality of sacrifice" was really aimed at, the names of all those who had been conscripted, or had volunteered (volunteers could not be treated worse than others) would have to be struck off the list of those liable to the Levy.

Then the fathers, mothers, widows, children and other dependents of those who had fallen in the War would have to be considered. "Equality of Sacrifice" would not allow them to be levied upon, just as if they had not already made more sacrifices than others who had not lost loved ones.

Sentiment apart, it is a very *real* sacrifice to people who are not well off to lose those who would have helped to support them in their old age and to support and educate their younger children and start them in life.

It is clear, therefore, that an indiscriminate "conscription of wealth," by means of a Capital Levy, would *not* produce a general "Equality of Sacrifice," because it would, in so very many cases, demand *two* sacrifices from Ex-service men or their parents, War Widows, and dependents, and only *one* sacrifice from others who had neither served in nor suffered through the War.

It may be said that this injustice could be rectified by exempting from the Levy all who had served, or who were widows, or parents or dependents of those who had served, but if that were done the yield of the Levy would be so greatly reduced that even its strongest advocates would hardly think it "worth while." For that reason the idea of exempting from the general Capital Levy Ex-service men, War Widows and orphans or dependents, or even

* See page 106.

disabled men, has never even been hinted at by the Socialist Labour Party.*

Even, however, *if* Ex-service men were exempted from the Levy as an act of justice, another set of injustices to *others* would arise. Very many who volunteered or who were called up were rejected as medically unfit, others who were anxious to join the fighting forces were ***not allowed*** to do so because the authorities considered that they would be serving the country ***better*** by remaining at civilian posts. It would obviously be unfair to demand from these men (who would have fought if they had been able or had been allowed to do so) as great a " sacrifice " under the Levy as from those who deliberately " shirked."

So in the final analysis it comes to this : " equality of sacrifice " as between combatants and non-combatants is incompatible with a Capital Levy, and all the fine phrases which have been used by the Socialist Labour Party generally about its being " a measure of Justice for Ex-service men " are merely " claptrap " and an insult to their intelligence.

* The recommendation of the Select Committee was that (*if* a War Wealth Levy was to be imposed) " Special relief should be granted in the case of combatants who have been disabled in consequence of the War and of dependents of those who have lost their lives while fighting."

PART VII

VALUATIONS—PRIVATE BUSINESS

A FACT which does not seem to have been generally grasped is that if a Capital Levy were imposed it would be necessary—in order to get at the amounts at which *individuals* should be assessed for the Levy—to make a "valuation" of *all* the assets (wherever situated and including goodwill) and of *all* the liabilities at home and abroad of every *private firm* which included amongst its partners a person who was or might be liable to the Levy.*

In no other way could the real "Wealth" of *any* of the partners be—even approximately—ascertained, but even if that inquiry was fairly "thorough" the Levy might be more or less evaded by so arranging a firm's "Books" that assets were undervalued and liabilities magnified.

It is not so easy to evade the income taxes by such means, because an under-estimate of *profits* in one year causes greater profits to appear to be taxed in subsequent years, and there is therefore little inducement for evasion.

In the case of a *Capital* Levy it would be different. An *under*-estimate of assets and *over*-estimate of liabilities might mean a great reduction in the amount of Levy to be paid by the partner or partners. This would be a *permanent* gain to him or them, and not merely a temporary *postponement* of payment of Income tax such as might be obtained by an under-estimate of yearly profits.

There is also little or no inducement to a firm to "cook" its accounts for the purposes of the Death Duties. When one member of a firm dies *he* is powerless to "arrange" the Books and the remaining partners have no reason for

* See Appendix P, paras. 959–962.

so doing, and in most cases no one has known in advance the date on which the partner would die.

In the case of a Capital Levy, however, it would be very different. All or most of the partners might be subject to the Levy and therefore interested in making the "net" assets look as small as possible. And they would have known for a long time beforehand that it was likely, if not certain, that they were going to be valued at about a certain date and could arrange accounts accordingly.

The great unpopularity of the Levy, the feeling of its injustice and its foolishness, would probably induce many to evade *it* who would not attempt to evade *other* taxes which they considered "fair," although "onerous."

This fact is recognized in a paragraph of the Memo of the Board of Inland Revenue to the Select Committee on War Wealth, which reads :

"116. The Board, in conclusion, desire to submit one further consideration. No tax of this magnitude could be effectively imposed unless it were accepted by the great majority of taxpayers as a fair though onerous burden. If this proved not to be the case and taxpayers as a whole resented the charge and were anxious to raise not merely all legitimate objections of substance, but also all the points of technical legal detail by which the execution of so complicated a duty could be clogged and delayed, the successful administration of the duty would be gravely endangered."

If under-estimates of assets and over-estimates of liabilities were made they could not be generally punished, because although the values of certain "quoted" securities could be checked, no one could prove—months, or perhaps years, after the event—that a man was acting illegally in "*thinking*" that his unquoted securities or machinery, or stock in trade, or land, or houses, etc., etc., were worth less than they ultimately proved to be worth, or in "*thinking*" that certain liabilites were larger than the sum for which he ultimately "got out" of them.

The mere fact that a system of taxation would put a premium upon evasions which could not be easily detected and punished has always—and properly—been regarded

as a strong argument against adopting that particular system. The facility for evasion and the difficulty of detection and punishment are strong *administrative* reasons against a Capital Levy.

Another point to remember is that businesses would be valued as "going concerns" with a "goodwill" value attached. The value of a "going concern" is greater than its mere "net assets." The value of "goodwill" varies, but might be estimated at, say, three years' average profit. That would add £6,000 to the "valuation" of a firm making £2,000 a year. To capitalize and tax "goodwill" is to tax problematical future profits dependent largely upon the individuality of one (or more) of the partners, and in the event of death or dissolution of partnership the goodwill upon which the tax had been paid would have disappeared or be largely reduced.*

It is argued that firms *as such* would not be liable to the Levy, but only the individual partners, who would be able to pay their personal Levies out of private means without reducing the firm's capital. In some cases that might be so, but even then it would reduce the firm's "credit" (see page 144). In the majority of cases—particularly if the firm was young or "struggling"—the Levy would have to come out of the firm and reduce its trading power.

Also if a partner could not pay his Levy in a lump sum, but required to pay by instalments, he would have to give the Government a "First Charge" (see page 115) upon *all* his assets, and as these would include his share in the assets of the firm, the firm's assets would be involved in the transaction, and this would affect poorer partners who were either not liable to the Levy or only liable to a smaller extent.

* See Appendix T.

A "FIRST CHARGE" OR "PRIOR LIEN"

If a Capital Levy Act were passed, the next step would be that all persons who possessed sufficient "Capital"* to render them liable to the Levy would be obliged to declare their liability, and to furnish a "valuation" of their net assets and to pay upon that valuation, subject to its being "checked" by the Government officials.

Some would, perhaps, be able to pay their Levies out of funds which were available for that purpose, but the majority would, no doubt, have either to "realize" something they possessed or "collect" money which was due to them by other persons. Comparatively few concerns in either wholesale or retail trade deal on a strictly "cash" basis. Most of them have on one side of their books entries showing what is due to them, and on the other side what they owe. It is the *difference* between the total of the former and the total of the latter which is, in the main, the "backbone" of the firm, as it is largely on the strength of the fact that what is due is in excess of what is owing that "overdrafts" are granted by banks.

One of the first effects of a Capital Levy would naturally be that creditors would press their debtors to "pay up." So A would press B, and B would press C, and so on. But, as all business people know, if anyone presses their debtors too hard or reduces the credit given them, they at once restrict their business by so doing. So if A presses B and B presses C, the business of all three is restricted, and so on right through from the manufacturer or importer down to the customer. "Book debts" are, in fact, a very important part of the machinery of Finance, Industry,

* See page 83, "Capital" for "Levy" Purposes.

Commerce and Trade, and a Capital Levy would throw that machinery out of gear by forcing a great many to take stringent action against those who owed them money.

The Inland Revenue officials would be bound to press for payment of the Levy, and even if they granted time or agreed to payment by instalments, they could only do so after being "satisfied" that the reasons given for delay in payment were valid reasons, and this would mean numberless "investigations" and "inquiries" from all the persons concerned.

For example, if A said he could not pay his Levy because he could not collect money due to him by B, who said he could not pay it, the investigation would have to be not only as to whether A was, in fact, unable to pay unless B paid, but also as to whether B (who might or might not be subject to the Levy) really was unable to pay A. If B's excuse was that he could not pay because he could not get what was due to him by C, then C's affairs would also have to be investigated, and so on.

And if it happened—as it easily might—that the general "slump" in values of all sorts of assets which resulted from the Levy, also resulted in people being unable to meet all their liabilities in full—including the Levy—the State would, undoubtedly, under its "First Charge" or "Prior Lien,"* seize the full amount due to it and only leave for division amongst the other creditors what remained. So the Levy on some would lead to a loss to others, and so render it more difficult for them to *pay their Levies*, and so on. This, of course, would lead to further failures, and trade of all sorts would be demoralized, because no one, whether subject to the Levy or not, would know how they stood or who to trust. The fact that people were supposed to be "wealthy" would not increase confidence in them, but the reverse, because the greater the wealth the greater the Levy. Even the financial standing of a "millionaire" would be open to question, as it would be known (*a*) that the Government had a "First Charge" of £502,800 upon his net assets, and that this would probably absorb all his cash and most of his best securities, and (*b*) that, owing to the

* See Appendix P, para. 212.

" slump "* his remaining *nominal* " capital," even if realizable, would fetch relatively little.

His real position might be assumed to be as follows :

	£
Total " Wealth " (as calculated for Levy Purposes), £1,050,000, Less Liabilities of, say, £50,000 ; say subject to Levy.....	1,000,000
Government's First Charge or Lien	502,800
Leaving..	£497,200

of *nominal* " Capital " consisting of his least realizable forms of property and of doubtful *real* value, and consisting mainly or largely of non-income-producing assets, many of which would cost money to maintain. All this would shake confidence even in " millionaires."

Some may think all the foregoing cannot be true, because we have not heard of such things happening in other countries where Capital Levies have been imposed, but if they have not happened (and it is very difficult to get at the truth), the reasons are quite simple. Such things may not have happened to any great extent in Italy because the Capital Levy in that country is payable over a period of thirty years, with revaluations (*i.e.*, adjustments) at fixed intervals, and the maximum rate does not exceed twenty-five per cent.†

In Germany, Austria and Poland the severity of the Capital Levy has been greatly mitigated by the depreciation of the currencies in all those countries. For example, if an assessment of, say, 20,000 marks had been *made* in Germany on a certain date upon assets valued at 100,000 marks, that Levy would *then* have represented 20 per cent. of the taxpayer's " wealth," but, as before the Levy was *paid*, the currency had so *depreciated* that the values of the assets had *risen* (as they did) to 500,000 marks, the Levy of 20,000 marks upon that only represented 4 per cent. of the taxpayer's wealth !‡

* See page 85. † Report, page 265.

‡ In some cases what was a substantial Levy *when assessed* only represented the value of an egg *when paid*, and the cost of collection became greater than the value of the Levy.

In Czecho-Slovakia the Levy is only about £5 per head of population (as against the £70 per head proposed here) and is spread over a much larger proportion of the people. Even so, owing to the *rise* in the value of the currency in Czecho-Slovakia it has been found to be too severe and has been modified.*

In other words, nothing nearly as severe as the Levy proposed for this country has, in fact, been *carried out* in any other country. Therefore, no Government has established in them any such heavy "First Charges" as the Levy proposed for this country would involve.

There is no need to consult a "political economist" as to what this "prior lien" would mean. Everyone engaged in trade—from the Butcher up to the Banker—knows what their attitude would be towards persons or firms if they knew that such a "prior lien" upon their assets existed. They would admit that they would either refuse credit altogether, or at all events greatly reduce the credit they would otherwise have given.

Nor would it be right for either the Treasury or the taxpayer to hide the fact that such a "prior lien" existed. To do so might be an advantage to the taxpayer, but would be an injustice to the trading public. It would be as immoral to conceal the existence of such a "Prior Lien" as to conceal the existence of a "Bill of Sale," and, in many cases, it might be impossible for the Government to establish a "First Charge" upon the assets of a partner in a business without extending it to cover the assets or profits of that business itself and, therefore, the interests of others concerned in the business, but not liable to the Levy.

* See pages 35 and 133.

PAYMENT BY INSTALMENT

ADVOCATES of a Capital Levy admit that the Levy will be so heavy that in many cases it will be utterly impossible for those levied upon to find enough money or securities with which to pay it in a "lump sum."

To meet this difficulty it is suggested that in such cases payment of the Levy might be by "instalments" spread over an indefinite period of years.

Many people no doubt buy furniture and other things on the "instalment" system, and sometimes that works well, sometimes not, but in any case the person who undertakes to pay such instalments gets *something of value* (say, furniture and a home) *in exchange*. A Capital Levy would, however, give *nothing* in return for the instalment payments.

The Economists and other *theorists* who advocate a Capital Levy are all such optimists that they seem unable to realize the possibility of anyone ever making losses! Their calculations deal solely with *profits*.* Yet as all *practical* people know, losses very frequently happen, and not infrequently during several years in succession. And there are a still larger number of "lean" years when the profits are so small as to be "practically nil."

So if a business is to flourish, much of the profits made during good years must be put back into it by way of extensions, renewals, improvements, etc., and by adding to capital in other ways. These things cannot be done during "bad" years or "lean" years, when all or most of the living expenses of the partners, the wages of the

* For example, in Mr. and Mrs. Sidney Webb's book, "The Decay of Capitalism," there is a great deal about "*profits*," but "losses" are not mentioned.

workmen, rates and taxes, and any interest charges or rents that may be payable, have to be met out of " capital."

Such being the case, it is evident that any firm unable —through its partners—to pay the Levy upon the total value of its own working capital and assets (including goodwill), and also the Levy upon its partners' private possessions—all of which are really assets of the firm*—and, therefore, compelled to pay the Levy by instalments, would be placed in a very precarious position.

If business continued good it might be able to pay the instalments and carry on. Even so, its efficiency and power of development would be reduced by paying away part of its profit towards the Levy instead of putting it *back into the business*. In some cases this evil might, no doubt, be prevented or reduced by the partners reducing their living expenses, but even so this would mean their giving less employment to others.

During lean years the Levy instalments would probably take either most or all of the profits. That would leave little or nothing towards increasing or even maintaining the efficiency of the business, and it would mean that the firm's capital, or assets, would be " eaten into " by the drawings of the partners for necessary living expenses.

During bad years the *combination* of losses, the Levy instalments, the interest on the unpaid part of the Levy, living expenses, rates, taxes, wages, rents and other charges (if any) would, as already explained, *all* have to be paid out of such " fluid " capital as might be available and thus bring about a stoppage owing to insufficiency of working capital.

Little imagination is required to enable us to see that a very few lean years, or a year or two of loss during the period in which instalments of the Levy were payable, would almost certainly result in the ruin of many businesses which, *but for the Levy*, might have " weathered the storm," and—this is where the general public come in—ruined businesses do not give any employment themselves nor do they give employment—as " live " businesses do—to people in " subsidiary " industries.

* *Everything* a partner owns, no matter where it is or what it is, is by the law an asset of the firm and the firm's creditors can seize it as such.

Some such considerations as the above may have been passing through the mind of Dr. Dalton when he wrote that it would "be well to time the imposition" (of the Levy), "so as to make it coincide with an incipient trade boom." That—if possible—would no doubt reduce the danger, but even if—which is very unlikely—any Government could correctly forecast the setting in of an "incipient" boom and could—which is even more unlikely—so arrange matters as to impose their Levy at that particular time, it could not foresee how long that "boom" would continue. It might—like the last—be only short lived, and followed by a slump." If so that would be of little, if any, help to those who were under an obligation to pay a Levy by instalments extending over three, five or ten years.

Dr. Dalton further suggests: (1) That "the Government should take steps to keep the price level fairly steady during this critical period" (*i.e.*, the period of payment of instalments), and (2) That "this could and should be done by deliberate manipulation of the bank rate and of the currency note issue." He forgets that "price levels" depend on world conditions and cannot be controlled by this country.

He also suggests (in another connection) that it would be a simple matter to meet difficulties "by authorizing a temporary and strictly limited inflation." This suggestion is astonishing in face of his statement on another page of his book that "when a country has once started on the downward path of inflation, it becomes more and more difficult to call a halt, the depreciation of the monetary standard proceeds more and more rapidly, all trade becomes a gamble and the end is likely to be a headlong plunge into economic and political chaos."

The mere fact that such suggestions should be necessary shows how dangerous the whole plan is.

LIMITED COMPANIES AND THE LEVY

ONE would have thought that if there was any one thing in connection with a Capital Levy which was settled and certain it was that it would apply only to individuals and *not* to Limited Companies and Corporate Bodies, but as already pointed out, once the "principle" of a Levy is accepted there is no knowing where it will lead. If, for example, it is admitted that a Levy upon the Capitals of private traders will "stimulate industry" and "improve business" as its advocates say it will, why should not the industry of Limited Companies also be "stimulated," and their businesses "improved" by a Levy upon *their* Capitals also? If the imposition of a Levy upon Capital would be for the general good of the country, why not increase the benefit to the country by extending the Levy to *all* Capital, whether in the hands of private people or Limited Companies? "Logic" induced the Germans to extend their Capital Levy to Limited Companies and the Swiss Socialists to propose to do the same.* So it is not surprising that some of the "intellectuals" of our Socialist Party (realizing perhaps that a Levy upon individuals only would be disappointing in its yield) should have come to the conclusion that both "Logic" and "Justice" demand that Limited Companies and Corporate Bodies should also be subject to the Levy they propose. Hints or warnings of this change of mind appear in what Mr. Pethick Lawrence has written in "How Labour would Settle the War Debt" (see Appendix E) and in the following very significant passage in the 2nd Edition of the "Labour Speakers' Handbook" recently issued:

* Companies are also subject to a Levy in Czecho-Slovakia.

Joint Stock Companies *as such* would pay (the Levy) by transferring some of *their* shares to the National Debt Commissioners, who would later on realize the value of the shares.

It is noteworthy that nothing like this is to be found in the 1st Edition of the Handbook which was in use before and during the General Election (November, 1922). It is an entirely new paragraph evidently inserted with intent, as it has no apparent connection with the paragraphs which precede and follow it.*

Mr. William Graham, M.P. (who is sometimes named as a rival of Mr. Clynes and Mr. Snowden for the post of Socialist Chancellor of the Exchequer if and when such a post requires to be filled), is more outspoken. His criticism of his leader's proposals is: "All corporately held Capital was excluded (from the scope of the Levy), the theory being that recourse to the individual holder would be sufficient. *Investigation has shown* that that does not follow by any means; in fact, *the exclusion of the corporately held* would lead to *substantial injustice.*" (See Appendix G.)

Putting these three bits of evidence together makes it clear that what some of the Socialist Labour Party *now* have in mind is to impose a Levy not only upon "individuals" but *also* upon Limited Companies "*as such.*"

This would, of course, mean dishonouring "pledges" to Savings Banks, Co-operative Societies, Friendly Societies, Building Societies, Trade Unions and poor people who have their savings invested in shares in Limited Companies, but the Socialist Labour Party (if it ever got into power) would have to break so many pledges that one more or less would make little difference.

Another point which will probably surprise most shareholders is that under a Capital Levy, "lest injustice should arise," it would be necessary to investigate† the position

* As this is an "official" publication of the Labour Party, issued from its Headquarters (33 Eccleston Square, London), nothing could appear in it without the approval of the Party Leaders. Indeed, Mr. Arthur Henderson (in a Foreword) commends its contents, "on behalf of the National Executive of the Labour Party," to "the active workers in the Labour movement." He also thanks "those who have assisted in its compilation."

† See Appendix P, paras. 77, 79, 100, 102.

and affairs of most "Private" Limited Companies and of very many "Public" ones in order to see if they possessed any "unrevealed values" which *ought* to be levied upon. This would particularly apply to Companies "for the shares of which no effective market existed or for which the quotation was artificial."*

The official argument seems to run thus: "If we are to impose a Levy upon the *whole* wealth of individuals we cannot accept quotations which do *not* really indicate the *full* value of the shares they hold in Limited Companies. Therefore we must make sure that the quotations of shares really *do* correctly reflect the full value of the assets of the Companies."

This is only logical when it is considered that in order to ascertain the value of the interest of a partner in a private (unlimited) firm the affairs of that firm would have to be investigated.

The moral of it all is that if we agreed to the "Revolution"—it is no less—implied by a Capital Levy it would lead—as Revolutions always do—to many unforeseen consequences. Neither Private individuals of *any* class, nor Private firms, nor Private Companies, nor Public Companies can know in advance what a future Government would or might put in a Capital Levy Bill, nor how that Bill might be changed before it became an Act, nor how that Act might be amended or extended by subsequent Acts.

* Report, para. 79.

CONCLUSION

In the preceding pages we have examined many aspects of the proposed Capital Levy and the arguments advanced in its favour. One still remains which has hardly been touched upon because it lies somewhat outside the scope of this book, but as it has a bearing upon the matter it ought, perhaps, to be briefly referred to.

That is, that a Capital Levy is, to many of its advocates, not so much an object in itself as a means to an end, and that end is a "Socialist State." Exactly what that means we do not know, because the Socialist Leaders confine themselves to vague generalities and avoid the most important details.

For example. Last April the chairman of the Labour Party contributed some of these generalities to *The Times*, and the present writer at once requested him to reply to the simple questions printed below. No reply was forthcoming.

After the debate upon "Socialism" in the House of Commons last July, *The Times* published the following letter:

Sir,—At the conclusion of two days' debate upon Socialism we are still left without replies to the questions which I put to the chairman of the Labour Party in my letter to *The Times* of April 12, viz.:—

(1) Will the Socialist system demand from each according to his ability and give to each according to his needs, or will it give to those with most industry and ability more than to those who are idle and stupid?

(2) If the industrious and able are to be more largely rewarded than the idle and stupid, will they be allowed

to save and invest money, and so again form a capitalist class ?

(3) What form of discipline would be employed to ensure that every one gave to the State a fair day's work in return for what he obtained from the State ?

(4) What would the position of trade unions be under the Socialist system ?

(5) Would the Socialist system allow unlimited facilities for Free Trade in this country in the products of foreign private capitalist competitors, or would our State-owned or controlled industries be " protected " ?

Nearly all of these vital questions were more or less definitely asked during the debate, but were ignored by the Socialist-Labour speakers. Why ? Is it not reasonable to suppose that they were purposely ignored because it is realized that full and fair replies to them would kill Socialism ?

Your obedient servant,

DE F. PENNEFATHER.

House of Commons, *July* 17, 1923.

Again no reply was forthcoming except that the *Daily Herald* referred to the letter in a would-be jocular Leading Article, but did not attempt any serious reply to any one of those important questions.

It is easy to understand why the Socialists do *not* attempt to answer them, because they would have to admit the truth of what was written in an Editorial in the *Daily Telegraph* of July 19th last, viz., " If they (*i.e.*, the Socialist Labour Party) obtain the power they intend that ' legislative effort should be directed to the gradual supersession of the Capitalist system by an industrial and social order based on the public ownership and democratic control of the instruments of production and distribution.' The men and women of this country are to be fed, clothed, and dragooned by the State ; they are to work at the tasks selected by the State, for the number of hours which the State may direct, and receive payment in money or in kind as the State shall fix. That represents a violent revolution. Every man engaged in industry, in commerce and in finance, from the small shopkeeper upwards in the scale, has received warning of what he may expect if the

Socialists are able to seize the reins of power. And it is not only employers whose interests and welfare are menaced. Every worker, whether with brain or with hand, is involved in this policy of nationalization. For no country can nationalize industry without at the same time conscripting labour, and employing the most drastic measures to break strikes and control activity. . . . Opposed to them is the whole range of human experience, as well as the vast body of knowledgeable men of all countries familiar with the delicately-adjusted machinery of production and distribution. They have opposed to them also the great mass of the world's manual workers. The leader of the forces of Labour in the United States, Mr. Gompers, who has studied the doctrines of the Socialists for thirty years, has had the courage to affirm that 'economically you are unsound; socially you are wrong; industrially you are an impossibility.'"

Readers of this book may, at all events, be inclined to agree that a Capital Levy would not only be Economically unsound, Socially wrong and Industrially impossible, but—perhaps worst of all—so "SILLY"* that *intelligent* "Labour" cannot possibly support it.

* See Frontispiece.

A

TABLE OF INCOME TAX.

WHERE ALL INCOME IS EARNED.

Total Income.	Single person, widower or widow (with no young children).	Married couples with children as under.			
		None. 1923–1924.	One. 1923–1924.	Two. 1923–1924.	Three. 1923–1924.
£	£				
150	Exempt.				
160	1				
180	3	Up to £250 Exempt.	Up to £290 Exempt.	Up to £320 Exempt.	Up to £350 Exempt.
200	5				
220	7				
240	9				
275	13	£3			
300	15	5	£1		
325	18	8	4	£1	

WHERE ALL INCOME IS UNEARNED (OR INVESTMENT).

Total Income.	Single person, widower or widow (with no young children).	Married couples with children as under.			
		None. 1923–24.	One. 1923–24.	Two. 1923–24.	Three. 1923–24.
£	£				
135	Exempt.				
150	2	Up to £225 Exempt.	Up to £261 Exempt.	Up to £288 Exempt.	Up to £315 Exempt.
200	7				
225	10				
250	13	£3			
300	19	8	£4	£1	

FOR ADDITIONAL CHILDREN, DEPENDENTS, HOUSEKEEPER, &c., DEDUCT FROM THE INCOME the following amounts and consult either the single or married columns, as the case may require.

	Each other child.	Each dependent.	Widow or widower *with young* children. Housekeeper.	1st child.	Others (each).
Earned Table.....	£30	£28	£50	£40	£30
Unearned Table...	£27	£25	£45	£36	£27

NOTE.—The above figures are extracts from Mr. Tolley's excellent "Handbook" (6d.), published by Waterlow & Sons Ltd., London Wall.

B

THE BUDGET AFTER THE LEVY

An analysis of the proposals of the Socialist Labour Party* in connection with a Capital Levy suggests the following as the approximate figures which their Chancellor of the Exchequer would have to face in producing his "Budget" *if* his Party's promises were to be fulfilled:

	£
(1) Loss of Revenue due to abolition or reduction of Food, Drink, Tobacco, Entertainments, Corporation and other Taxes, say	144,000,000
(2) Loss of Revenue from Income and Super-tax and Death Duties resulting from Levy	90,000,000
	£234,000,000
(3) Less saving of Interest by paying off debt.....	142,000,000
	92,000,000
(4) Less saving by cutting down our Fighting Forces, say	32,000,000
(5) Net loss.....	£60,000,000
(6) Cost of promised *increased* Expenditure on Old Age and other Pensions, "Work for all," Housing, Education and other "Social" reforms, say	475,000,000
Total to be found each year by increased taxation, say	£535,000,000

Or an *addition* of over £12 per year per head (on the average) to the existing tax burden.

Suppose the S.L.P. Chancellor "scrapped" his Party's promises to the extent of 170 million pounds a year and only endeavoured to carry out so much of their programme as could be managed on an *extra* "million a day" of taxation? Where would he get that 365 million pounds a year from? The richer classes would have been "bled white" by the Levy. Every increase of the Income tax, Super tax and Death Duties upon those classes would mean a *less* yield from those taxes in subsequent years. The only classes he could hope to get more money from would be those who had either escaped the Levy or who had been only lightly touched by it. If those middle and poorer classes "revolted" against heavily increased taxation, the Socialist Labour Party's "programme" would have to be practically abandoned.

* As the Socialist Labour Party has not stated its figures, it is impossible to do more than to base estimates upon such information as may be deduced from Reports of "Conferences," Speeches, and from Books, Pamphlets and articles in the Press.

C

The following "Table" is reprinted from "Labour and the War Debt" (Labour Party).

SCALE OF THE LEVY

"The levy should be graduated so as to carry out the principle of taxation according to ability to pay. A graduated scale on the following lines is suggested :

				Levy per cent.
First	£5,000	£0 —	5,000	0
Next	£1,000	£5,000 —	6,000	5
,,	£2,000	£6,000 —	8,000	10
,,	£2,000	£8,000 —	10,000	15
,,	£5,000	£10,000 —	15,000	20
,,	£5,000	£15,000 —	20,000	25
,,	£10,000	£20,000 —	30,000	30
,,	£20,000	£30,000 —	50,000	35
,,	£50,000	£50,000 —	100,000	40
,,	£100,000	£100,000 —	200,000	45
,,	£300,000	£200,000 —	500,000	50
,,	£500,000	£500,000 —	1,000,000	55
Remainder	.....	Above	£1,000,000	60

This scale would work out as follows :—

			Per cent. of his total fortune.
A man worth not exceeding	£5,000	would pay	nothing.
,,	£6,000	would pay	£50 or 1.2
,,	£8,000	,, ,, ...	£250 ,, 3.2
,,	£10,000	,, ,, ...	£550 ,, 5.5
,,	£15,000	,, ,, ...	£1,550 ,, 10.3
,,	£20,000	,, ,, ...	£2,800 ,, 14.0
,,	£30,000	,, ,, ...	£5,800 ,, 19.3
,,	£50,000	,, ,, ...	£12,800 ,, 25.6
,,	£100,000	,, ,, ...	£32,800 ,, 32.8
,,	£200,000	,, ,, ...	£77,800 ,, 38.9
,,	£500,000	,, ,, ...	£227,800 ,, 45.6
,,	£1,000,000	,, ,, ...	£502,800 ,, 50.3
,,	£2,000,000	,, ,, ...	£1,102,800 ,, 55.1
,,	£3,000,000	,, ,, ...	£1,702,800 ,, 56.7
,,	£10,000,000	,, ,, ...	£5,902,800 ,, 59.0

The maximum rate of 60 per cent. is that of the present Income tax (6s. in the £) and Super-tax (6s. in the £)."

NOTE.—The paragraph at the end of the "Table" is quite misleading. No comparison is possible between the rate of a tax on *Capital* including *non*-income producing assets and the rate of a tax upon the yearly *yield* of Capital.

D

	£	
National Debt after Great European War ..	7,876,000,000	(1920)
National Income before Great European War	2,300,000,000	(1913)
National Debt after Napoleonic Wars	846,000,000	(1816)
National Income before Napoleonic Wars ..	250,000,000	(1792)

In each case the National Debt was 3·4 times the national income. There appear to be valid reasons for thinking that we can now cope with a debt of three-and-a-half times the nation's income more easily than we were able to a century ago.* "Had the advocates of a Capital Levy thought in proportions instead of in mere amounts, perhaps they would never have suggested a remedy that would be worse than the disease for which it professes to be a cure." (Sir William Schooling, *Times*, November 9th, 1922.)

* This is confirmed by figures quoted by Dr. Dalton, page 22, "Capital Levy Explained," who also admits that wealth per head being now greater, "a given percentage tax imposes a smaller real burden."

E

Extract from the Labour Party Pamphlet, "The Capital Levy. How the Labour Party would settle the War Debt," by F. W. Pethick Lawrence. Published from the Labour Party's Headquarters, 33 Eccleston Square, London.

THE CASE OF CORPORATE FUNDS

"In the third place, there are a number of institutions and associations possessing wealth which is not represented by any shares held by individuals. Such bodies, for instance, are: the City of London Companies, clubs, churches, chapels, universities, mutual assurance societies, co-operative societies, trade unions, friendly societies, &c. At present, some of these pay income tax on the whole or part of their property, but do not pay super tax or death duties; others are exempt altogether.

"Generally speaking, those bodies which are exempt from income tax to-day will, for the same reason, be exempt from the levy, while those that pay income tax will have to pay some contribution to the levy. But the case of each one of these bodies ought to be considered afresh when the capital levy is imposed."

NOTE.—Some important words are here underlined. It will be seen that until the "Capital Levy" was *imposed* (*i.e.*, until the Act was actually passed) none of these "bodies" would know whether they would or would not be subject to the Levy.

F

CZECHO-SLOVAKIA

As Czecho-Slovakia has been so often mentioned in the Capital Levy controversy the following particulars concerning it are extracted from "Whitaker."

Its population is 13,500,000 (against about 43,000,000 for Great Britain). Formerly under the Austro-Hungarian Monarchy, Czecho-Slovakia (in the break up of that Kingdom in 1918) declared itself a Republic.

"As regards both natural resources and industrial development, Czecho-Slovakia is one of the richest territories in Europe. By the Peace Treaty it has acquired about 80 per cent. of the whole industry of the former Austrian Empire. It has several rich coalfields, and possesses valuable mineral resources which, notably in Slovakia, have not yet been fully developed. Radium, gold, silver, iron, graphite and lead, are all mined successfully, while the whole country is abnormally rich in mineral and thermal springs. Oil is found in Slovakia, and Bohemia has rich deposits of clay, kaolin and sand. The whole country is well farmed, and agricultural production is on a very high level of excellence.

"In foodstuffs, however, the country is not self-supporting. Thirty-three per cent. of the total area of the country is forest land, and both in the productiveness of the forests and the quality of the timber the forest wealth of the Republic is enormous. In its industrial development Bohemia may be compared to Belgium.

"In Bohemia, Moravia and Silesia, which have a total population of ten millions, more than four million people are engaged in industry. The various industries are well organized, and as regards both machinery and modern improvements the factories are as well equipped as any in Europe. Outside of Slovakia illiteracy is almost unknown, and both the German and Czecho elements which compose the working-class population are hard-working and in many cases highly skilled. The new Republic possesses, therefore, many valuable economic advantages."

The following information in regard to Czecho-Slovakia has been collected from various sources.

1. The recent reductions in the rate of the Levy will reduce its yield to about £50,000, or about £4 per head of the population (against the proposed Levy of about £70 per head in this country).

2. The Levy there was imposed in May, 1920. The amount collected up to May, 1922, was only about 17 million pounds.

3. The Levy was so light and the time allowed for payment was so long that it could as a rule be paid out of income without any great inconvenience. It could therefore hardly be described as a *Capital* Levy.

4. As the "War Profits" have largely disappeared a good deal of the estimated yield of the Levy will never be realized. (It would be the same here.)

5. The Revenue Officials have been kept so busy assessing and collecting the Levy that they have not had time to attend to

the collection of the ordinary income tax which is consequently two years in arrear. (No doubt in many cases people *after* paying the Levy had not enough left to pay income tax also.)

6. The income tax overdue last May amounted to ten million pounds. If this is deducted from the 17 million pounds the Levy had then brought in, the gain from the Levy was only about seven million pounds.

7. The losses (consequent to the Levy) to individuals in trade and confidence were enormous, and caused the ruin of numerous manufacturers in the country and also of large numbers of foreign importers of the country's goods. Unemployment has been widespread, and it has only been by means of heroic efforts in reducing wages and costs of production and by writing down the value of stock that the country is beginning to regain her foreign trade, on which her prosperity depends.

8. The *Board of Trade Journal*, July 12, had the following: "The object of the capital levy was to cover the costs of introducing the new currency and the bank notes and Treasury notes (Kassen-Scheine) taken over from the Austro-Hungarian Bank and the expenditure involved in establishing the independence of the Republic. This tax has been levied on all property (movable and immovable) situated in Czecho-Slovak territory on March 1, 1919, and on all foreign securities in the possession of Czecho-Slovak subjects resident in Czecho-Slovakia on that date. It is assessed as follows:

> "10,000 Kc. free; 1 per cent. on the first 25,000 Kc. and then on a progressive scale up to 30 per cent. on amounts of over 10 millions.

"The amount of capital levy to be paid is fixed by the Income Tax Commissioners, and is payable 15 per cent. within 30 days after receipt of the demand for payment and the balance in six half-yearly instalments, of which the first becomes due four months after receipt of the demand.

"The results of the capital levy have proved extremely disappointing and the measure itself has been a source of considerable embarrassment to the Government. The law is most complicated and is not understood by the officials responsible for its administration. It has never been carried out to the letter, except in certain particular cases. Demands for the payment of capital levy have been made to those known or believed to be in a position to pay, but the actual sums to be paid have in most cases been the subject of negotiation between the Ministry of Finance and the individual concerned, and in almost every case the final assessment has always been far below that fixed by law. This levy has had a very detrimental effect upon industry and commerce, but owing to the slow and lenient manner in which the law has been applied it has not had the disastrous results which it otherwise would have had if it had been strictly enforced. It is highly probable that a very large proportion of the tax levied will never be paid."

NOTE.—Such is the "Success" (?) upon the strength of which the Socialist Labour Party ask us to impose a Capital Levy in this country.

G

Extract from *Forward*, 17th February, 1923.

In reply to a correspondent in *The Railway Service Journal*, Mr. William Graham, M.P. for Central Edinburgh, states his position on the Capital Levy. In the course of his statement Mr. Graham says:

"A year or two ago, along with many others, I strongly supported the suggested levy on capital. But time dragged on, and the depression began. Even by Labour supporters the proposals were modified. All corporately held capital was excluded, the theory being that recourse to the individual holder would be sufficient. Investigation has shown that that does not follow by any means; in fact, the exclusion of the corporately held would lead to substantial injustice. The depression deepened, and with that the indisputable fact that many firms began to encroach on capital resources to meet current liabilities, and to try to keep their works going. We may not believe in the present industrial system, but we have nothing to gain by ignoring the facts. . . . In innumerable cases wealth or capital was held in forms which, in order to make payment, would have to be realised. And realisation would make deeper inroads as prices fell (see page 85), together with the consideration that in circumstances in which many had to realise the demand could hardly be keen. And, finally, it was agreed that in many cases there would have to be time to pay, probably spread over a short period of years. In other words, the problem completely changed its character. From being a levy of immediate application—and the chief recommendation of the Capital Levy was its immediate and isolated character, for it was not to be repeated—it became in effect a scheme of penal taxation.

"By this time we had reached the General Election of November, 1922. In its manifesto the Labour Party included the Capital Levy, but two lines later it explained that the object was to try to deal with the war-time profiteer. It is unnecessary now to refer to the confusion that this involved.* But it did much to confirm many of us in the opinion that, having regard to the lapse of time, the changed industrial conditions, and the fact that we had passed from levy to penal taxation, it would be infinitely better

* A more scathing condemnation of the policy of the S.L.P. could hardly be written. It will be noted that the "confusion" to which Mr. Graham refers was contained in a manifesto signed—*on behalf of the Executive* of the S.L.P., by Sidney Webb, Ramsay Macdonald and Arthur Henderson, and that this manifesto was the 'platform" on which the Labour Party stood at the General Election of 1922.

to proceed on the lines of the report of the Select Committee of the House of Commons which dealt with War Wealth.* . . . For numerous reasons, which there is not space to argue at length, many of us felt that it would be better, on these facts, to go for war-time wealth.† Let it never be forgotten that the object of the levy was to deal with war-time debt, and, as the Labour Party in its own manifesto said, to get at the war-time profiteer. There are many holders of capital of £5,000 and upwards at the present day who lost heavily during the war; their capital holding declined, simply because they did not happen to be in the way of taking advantage of the national necessity. They, among others, are entitled to be distinguished from war-time extortionists. . . ."

* This would mean dropping the proposed General Capital Levy altogether. See "War Wealth Levy."

† This is now admittedly impossible.

H

DEFINITIONS OF CAPITAL

CAPITAL: The results of past labour saved up and used in a form to assist future production. This includes every description of assistance to man's labour not freely given by nature. So the natural fertility of the soil is called "Land" by Economists, the artificial improvements due to man's energy "Capital." Under capital may be classed implements, buildings, machinery, raw materials, money, etc. The various kinds of capital are: (a) *Trade Capital*, consisting of business investments, machinery, etc., and which yields a certain income to its possessor. (b) *Consumption Capital*, consisting of possessions such as a private park or picture-gallery, which yield an income of pleasure and enjoyment, which cannot be easily estimated in terms of money. (c) *Fixed Capital* is embodied in a form in which it can be used a number of times without complete exhaustion of its utility in that form, e.g. machinery, weapons, buildings, etc. (d) *Circulating Capital* is completely consumed or changed in form by one use, e.g. coal, food, money, etc. (e) *Specialized Capital* is so "fixed" that it cannot be used for any other purpose than that for which it was originally created, e.g. a canal, railway, telephone, etc. (f) *Auxiliary Capital* is that which specially assists the labourer in production, as buildings, implements, etc. (g) *Floating Capital* exists in such a form that the owner can invest it immediately in anything he selects. The only real example is money. (h) *Sunk Capital* is that invested in any concern, and embodied in a particular form by the owner. ("Dictionary of Economic Terms.")

I

Extract from Speech by the Rt. Hon. Stanley Baldwin, M.P. (Prime Minister), at Edinburgh, 27th July, 1923 :

CAPITAL THE FERTILISER OF INDUSTRY

" We want in this country people to realise these things—that both masters and men engaged in industry are not working only for themselves, but they are working in truth to help to get cheap food for our people. That is their great mission, and no higher and finer mission can be found on earth. This was preached a generation ago or more in this country. It is a truth that we want to recognise. We want to cling to it, and we want to act upon it, because you may take it from me that you can only drive out of people's hearts the impulses which we believe to be bad and dangerous for the community by implanting in them something better and something more worth living for. Now, we are told that capitalism is the enemy, and that the war is to be against capital. But I always think you want to look very carefully at our definition before you speak in general terms like that. And what we want to make people realise is that capital, in the first place, is a prime necessity for industry, and that, just as two of the greatest essentials to enable nature to do her part in agriculture are rain and manure, so capital is the rain and manure of industry. And we want to remember the elementary fact that that capital is nothing more and nothing less than the savings of the people, which they have put by generation after generation by the exercise of the primitive virtues of thrift and self-reliance. If any of us in business want capital we go to a bank for it, and a bank has no bottomless purse, as the ignorant believe, from which sovereigns are ladled as required. The money that the bank lends—the capital—represents the savings of every class of the community and is made up by the coppers as much as by the sovereigns. You find there deposits from the friendly societies, from savings banks, from trade unions, and from all the small investors of the country, just as much as you do from the rich, and it is that common help of all classes which is given in that way that is the motive power for our industry. But so delicate is the mechanism of this system, which has grown up for generations, that the people to whom we have to appeal at election time have either lost sight of or have never yet had a sight of the real processes, and they are only too prone from that to be ready to accept any explanation that may be put before them by the ignorant and the glib-tongued."

J

Mr. Philip Snowden, M.P., in the *Morning Post*, June 28th, 1923: . . . "It would be most unwise to impose a Capital Levy for ordinary revenue purposes. It is a thing which could only be done once. If it were feared that it might be repeated, commercial enterprise and saving would be disastrously affected. If, of course, the commercial classes, and those who would have to contribute to a Capital Levy will not have it, but prefer to go on paying a high income tax without any hope of any substantial reduction, they must bear it, and a Labour Government would have to look in other directions than the Capital Levy for revenue."

NOTE.—Mr. Snowden, in the above, practically agrees with Mr. Bonar Law, who said in 1917 that the question whether there should or should not be a Capital Levy was a matter which mainly concerns those who would have to pay.

K

SWISS CAPITAL LEVY SHOCK: In the annual report on the economic and financial conditions in Switzerland [Department of Overseas Trade, Stationery Office, 2s. 6d. net], Mr. E. C. D. Rawlins, the British Commercial Secretary at Berne, says: "Had the proposal been accepted, the consequences might have been very serious. As it was, there was a good deal of financial and commercial disturbance, such as export of capital abroad, runs on local savings banks, a greater or less fall in all Government bonds, Banking and Industrial shares, and other signs of the approach of a panic, or upheaval, in the domestic economy of the country. The measure was heavily defeated—735,894, as against 109,686—but the whole matter acted as a shock to the country's system. Stimuli of such force cannot, however, fail to leave their traces even after the immediate reaction, and the Capital Levy proposals, given such prominence during the autumn of 1922, must have left their mark to an extent which can never be accurately gauged."

L

Extract from "Labour's Call to the People," dated October 24th, 1922. Signed on behalf of the Executive by Sidney Webb, J. Ramsay Macdonald and Arthur Henderson:

"It" (*i.e.*, the Socialist Labour Party) "proposes an increase of the Death Duties on large estates and of the Super-tax on large incomes; incomes below £250 a year would be exempt from taxation and there would be a reduction in the tax on all incomes under £500 a year, with a steeper graduation of the scale above that limit."

NOTE.—Most incomes below £250 are already exempt. The promise of a "reduction" on those under £500 is so vague that it is of no value.

M

That thoughtless people (including some who ought to know better) were misled by the statements in the "Labour Speakers' Handbook" is proved by the following, written by Mr. H. B. Lees-Smith, M.P., in the *Labour Leader* of February 23rd, 1922:

"By this operation 4,000 million pounds—half the War Debt—would be rapidly paid off and 200 million pounds a year—the payment of interest and sinking fund on this sum—will be saved. By this means the central problem of Labour Finance would be solved, for the money would be available to pay for the schemes of reconstruction by which Labour will be judged."

Mr. Lees-Smith (one of the "intellectuals" of the Socialist Labour Party) is a graduate of Oxford. Was Liberal M.P. for Northampton, 1916–18, and is now Labour M.P. for the Keighley Division of Yorkshire.

If "Labour" will, as he says, "be judged" by "schemes of reconstruction" based on the assumption that it would have "200 million pounds" a year "available to pay" for them when in fact it would only have 40 million pounds or less, then "judgment" must mean "condemnation." (See page 15.)

N

Extract from "Whitaker's Almanack," 1923 (page 848), under the heading of "Capital Levy Proposals":

"These proposals are, however, of an international character, emanating from a common source, and, through similar channels, being pressed in other countries."

NOTE.—Our Socialist Labour Party have recently joined and agreed to obey the "Socialistche Arbeiter Internationale," the majority on which are Germans, Russians, Austrians, Poles, Turks, Bulgarians, Armenians, etc., etc. The British Socialists have only 3 votes out of 34 on the Executive and 30 out of 245 at the Congress, the decisions of which *are binding on all its members*.

O

GREEK TAX ON CAPITAL: The *Times*, February 16, 1923, reported from Athens that a decree was published in the *Gazette* imposing a progressive tax varying from 3 to 15 per cent. on all capital and real estate of 50,000 drachmae and upwards. The tax is payable in instalments within five years. The Government expects to collect from the new tax a sum of 1,500,000,000 drachmae.

At 250 drachmae to the £ this totals six million pounds, and the exemption limit of 50,000 drachmae means about £200 in our money.

P

Extracts from Memorandum of Board of Inland Revenue to Select Committee on War Wealth* :

54. The Board therefore incline to the view that, for the purposes of determining the rate at which the contemplated duty should be charged, the increase of wealth of husband and wife should be aggregated.

VALUATION OF WEALTH

64. . . . The property owned by individuals in a modern society consists sometimes of material assets, *e.g.*, a house, sometimes of rights, *e.g.*, a lease of a house, a share in a public company, a life-tenancy under a settlement, a share in the estate of a deceased person, or a current life policy.

65. It is only in the minority of cases that the process of valuation is limited to the ascertainment of the value of a material asset, *e.g.*, a house or a piece of machinery ; more generally it is the proprietary right of an individual—less than or distinct from the absolute ownership of a material asset—the value of which has to be ascertained.

Thus, for example, it will be necessary to value the assets of a private business owned by an individual liable to the duty, but not the assets of a public company, unless it should be decided to bring public companies as such within the scope of the duty.

76. *Industrial Capital, Trading Capital, Goodwill, etc. ; Private Firms.*—As has been mentioned, valuation would be necessary only in the case of private businesses, unless it is decided to bring public companies, as such, within the scope of the duty.

77. *Industrial Capital, Trading Capital, Goodwill, etc. ; Private Companies.*—The problem which arises in the case of private companies is analogous in all material respects with that arising in the case of private firms, as no independent criterion with regard to the value of individual holdings exists as in the case of most public companies—*i.e.*, quotation of shares on the Stock Exchange.

79. . . . But in exceptional cases—*e.g.*, of public companies for the shares of which no effective market existed or the quotation was artificial—a procedure similar to that adopted in the case of private companies would be necessary, lest injustice should arise.

* In all the following extracts redundant words have been omitted in order to save space. The index numbers given will facilitate reference to the full official Report.

PUBLIC COMPANIES

100. . . . There are, of course, accumulations of war-time profits in the reserve funds of public companies and the question arises of extending the duty thereto.

102. It is probable, however, that the whole of the value of the assets of a company is not always reflected in the market value of its shares, and there may thus be a residuum of increased value which, if it could be reached, should come within the scope of the tax.

Evidence of Sir John Anderson, K.C.B. (Chairman, Board of Inland Revenue)*:

144. You have told us that the valuation would involve 340,000 persons. That is what you estimate?—Yes.

145. Is it not the case that in each of these 340,000 cases there would be several different valuations? For example, might you not be valuing machinery, houses, land, cattle and horses, furniture, pictures, gems, raw materials, goodwill and all those things, and would not that mean that that 340,000 persons would have to be multiplied considerably to arrive at the number of valuations?—Undoubtedly.

158. Have you calculated what would be the number of these valuations roughly? Would you multiply the 340,000 by 5?—It is very difficult to say. Many people have property falling into eight or nine or ten different categories. Others have property which can all be brought under one heading. Undoubtedly the number of individuals that we have given would have to be multiplied many times over in order to arrive at the number of valuations that would have to be made or that would have to be checked.

161. We should regard it as quite essential that the onus of valuation should be thrown on the individual taxpayer in the first instance, but I think we should also regard it as important that the valuation should be closely scrutinised and carefully checked.

212. You say, "In exceptional cases it would seem necessary to give the State the right to take powers analogous to those of a limited partner, or, in the alternative, to take a floating charge on the taxpayer's assets." If you take a floating charge on the taxpayer's assets of 50 per cent., we will say, of the taxpayer's surplus assets taxable under this proposed tax as increase of wealth, the possibility would then arise that when he went to his banker and said: "Will you accept bills which are being drawn on me from America or from Africa; will you accept bills on my behalf," in the ordinary course of business the banker would say: "What is your capital?" The taxpayer would say: "My capital is so-and-so." The banker would say: "Is there a prior lien?" and he would have to say: "Yes, the Government have got a floating charge of so much"?—Yes.

* The replies given by the witnesses quoted were to questions put by Mr. Pennefather.

336. You cannot give any indication as to what percentage you rely upon from savings, and what from increased values?—Authoritative opinion puts the savings of the community pre-war at from three hundred millions to four hundred millions a year. I have no doubt that the rate of saving, expressed in post-war values, during the period of the war has been considerably more. That will give the Committee some general impression of the extent to which the element of saving enters into the increase of four thousand millions to which I have referred. The savings include the savings due to thrift, in the popular sense of the term, and the savings which came to people willy-nilly.

504. Arising out of that, I want to ask this, whether the comparison between the £7,000 post-war wealth and the £2,500 pre-war wealth is a comparison which can really be made. Are not we comparing two different things? The £7,000 post-war wealth, I imagine, would be valued in "Bradburys" and the £2,500 pre-war wealth would be valued in sovereigns. Is that so?—No doubt, yes.

505. But a sovereign and a "Bradbury" are two different things?—Yes.

Evidence of Sir R. V. N. Hopkins, C.B., Joint Secretary of Board of Inland Revenue.

720. . . . Are we dealing with something really practical, or are we dealing with something which is purely imaginary? Assuming that the increase of wealth is merely due to a depreciation of our currency, then a very curious thing would follow, and that is, that in every country the greater the depreciation of the currency the greater would be the nominal increase of wealth. You calculate your increase of wealth in this country by supposing that a certain number of people have made a certain increase of wealth; if that is due to the depreciation of currency you then go to France and you will find that France has got a greater increase of war wealth than England, and you pass to Germany, where the currency is very depreciated, and if exactly this line of calculation in this Memorandum was carried out in Germany it would show Germany had an enormous fund of war wealth which might be liable to taxation, and that the ratio of increase was very much more rapid than in this country.

Mr. Walsh: And Russia would be the most wealthy of all.

861. . . . "We have not contemplated making any wide or sweeping allowances such as have been suggested in some quarters. Perhaps it might be just worth my while to refer to a brief argument upon this subject which appeared in an article in the *Economic Journal* from the pen of Professor Scott, who deals, I think, very clearly with the theoretical and practical difficulties of making any general allowances of that kind. He refers to the fact that the suggestion of allowances is generally based upon the theory of sacrifice. It is suggested that the soldier has made his sacrifice in risking his life upon the battlefield, and that a special war emergency levy of this kind might be regarded as a compensating sacrifice from other citizens. What he says is this: "This view

takes no account of succession and bequest. Old men, and old women too, who have property, usually conserve it in the interest of some younger lives which they desire to benefit. To the first class the infliction of a levy is of comparatively little concern, for the time during which they will feel it is bound to be relatively short. Thus by far the larger part of the true incidence will be upon their successors. Amongst those of them who are men the great majority will have served in the combatant forces. But it may be said that half or more than half the beneficiaries will be women. And their claims to succession cannot be denied, for they include, alas! too many young widows of officers and others who have served, in very numerous instances with children to educate upon niggardly pensions. Again, from the time that the Germans began to sink hospital ships and to intensify the bombing of hospitals, there can be little doubt that the risk in war which presents the highest degree of sacrifice is that of nurses and other women employed at the bases. The former in particular, even in less barbarous wars than this, were regarded as immune from hostile attack both by reason of their work of mercy to all belligerents alike and by their sex. Now they are subject to death and mutilation without the man's remedy in the chance of retaliation. It is on many of these that the real burden of the levy will fall."

959. In this paragraph you say that it will be necessary to value the assets of a private business owned by an individual?—Yes.

960. What I suggest is that that really means owned by one or more individuals?—Yes, it certainly means that.

961. The majority of firms consist, not of one individual, but of 3, 4, 5 or 6 individuals?—I quite agree.

962. Therefore to get at the assets of the individual it would be necessary to value the assets of the firm?—That is quite so.

Evidence of Mr. R. H. Martin, C.B. (Bank of Liverpool), and Mr. W. W. Paine (Lloyds Bank).

1854. What are the real effects of a financial panic; what should we have to face; what would be the effect upon labour if we brought about a financial panic in this country?—The effect of a financial panic would be immediately to stop production and to throw an enormous number of people out of work.

1855. And to cause unemployment?—Yes.

1856. And it would cause failures?—Yes.

1857. And if it does that, those failures involve not only the rich, but very often the poor?—Quite so.

1858. I think you said that if a tax of this sort were once imposed it would be impossible to convince the business men of this and other countries that something similar might not be imposed again?—Yes.

1860. And therefore you think the result of a tax such as this would be a serious check on enterprise in this country?—Yes.

1861. And would check the flow of capital from other countries to this country for investment?—Certainly.

1862. Do you agree, Mr. Paine ?—(Mr. Paine) : I agree.

1865. Therefore, although a man might not be actively engaged in business, but was merely a guarantor in respect of business, a taxation of that kind might result in a serious curtailment of the credit given by banks to the industry in question ?—Without any doubt. (Mr. Paine) : As regards many of those large fortunes which we have heard of, which Lord Colwyn was speaking of the other day, the men who had made those fortunes are men who are intensely interested in trade and enterprise of every kind. They will be enormously affected in their financial positions as the result of this tax, and we should certainly have to reconsider our limits.

1866. Even in cases where no formal guarantee is given, where the bankers know that one or more of the partners have considerable assets, you give a firm in which those individuals are concerned a greater credit because you know that some of the partners have large private means ?—(Mr. Martin) : Naturally, and very often the securities are in our hands.

1867. But even apart from that, if it is Smith, Jones and Robinson, and you know that old Smith has a lot of money and land and various things not in the business, you say : " After all, we have always got old Smith to shoot at if anything goes wrong." That is the attitude you take up ?—Yes.

1868. Therefore, if a pretty heavy tax is put upon old Smith, you as bankers would reduce the credit you gave to the firm in which he was practically a sleeping partner ?—Yes.

Q

The witnesses on behalf of a sub-committee specially appointed by the Stock Exchange to deal with the matter (who must certainly be " experts " on at least this particular point) gave the following evidence before the Select Committee on War Wealth :*

Question.—" Speaking generally, do you agree with the evidence which has been given before us in the last two days by the bankers, who expressed the conviction that if this tax were imposed there would be a general panic—do you go as far as that or not ? "

Reply.—" If there was to be the idea that there were to be forced sales of securities in order to provide a very large sum of money, you would practically have a panic ; you would have panic markets almost at once. By panic markets I mean the dealer virtually would down tools and say, ' I will try and find a buyer for you, but I cannot make you a price.' I think that would be a very early result.

" . . . We think that it is not going too far to say that the next worst thing to a default, which hurts the credit of a country most, would be a capital levy."

Question.—" Presumably if any cash has to be found, it must be found out of deposits with bankers or by realization of other general securities ? "

Reply.—" Quite."

Question.—" It is those general securities which you think would be mostly affected by those realizations ? "

Reply.—" Yes. Of course, if you have corporation stocks and the whole list of what are known as trustee stocks, Colonial Government stocks, Railway Debentures, and let the Government take those, you are only putting off the time for those to be sold ; they will be sold gradually instead of in a rush, and to that extent the effect will not be so bad."

Question.—" They will be hanging over the market ? "

Reply.—" Yes, and the investor is quite wide awake enough to know that, and he will be waiting for them to come out to be sold."

Question.—" And meantime prices fall ? "

Reply.—" Meantime prices fall, and every fresh corporation which wants to borrow, every fresh company which wants to borrow, will have to pay an increased rate."

Question.—" And it therefore affects trade adversely ? "

Reply.—" It affects trade and the rates and everything else."

* See 'Report," pages 140–142.

R

HUNGARIAN CAPITAL LEVY

A Report of the Overseas Trade Department of the Board of Trade, March, 1923, says that the Capital Levy in Hungary " cannot be considered to have justified the dislocation of business and uncertainty undoubtedly caused by its operation. As might have been foreseen, those who could ill afford it suffered most. Those who had sufficient acumen to make money found some sure means of retaining it. . . . While the thrifty who put by for old age found the purchasing power of their savings reduced, the cautious capitalist, on the principle of ' once bitten,' promptly did his best to secure himself against further risk by removing his mobile property out of harm's way."

S

WHO PAYS THE INTEREST ?

The obvious fact that if the wealthier classes subscribed for the bulk of the War Loan, *they* also provide the interest thereon, was well put by Mr. Pethick Lawrence in his Evidence before the Select Committee when he said : " The very rich find only half their nominal income belongs to them, and an army of Government clerks are engaged in collecting the other half *from them* in taxation and paying it back *to them in interest on War Loan.*"*

* See " Report," page 197.

T

GOODWILL

Extract from letter from the late Sir Alfred Hobson (then President Association British Chambers of Commerce) to Select Committee on War Wealth :

" It is proposed to include the value of the goodwill of private business concerns, on the assumption that profits will continue. Goodwill in private concerns is generally a matter of personality, and if a tax is levied upon so uncertain an asset as the continued life and health of individuals it may very often have to be paid when the asset valued has already partly or wholly disappeared."

U

An article in " The Labour Magazine," December, 1922, suggests that we should copy a Capital Levy made in 1282, " when the Treasury was still a coffer in the King's bedroom."

It quotes an old " Record," reading : " These are the goods of the men of Ipswich in coin, furniture, clothing, jewellery, ships, boats and fittings, corn, and other goods from which the sum was made up in this roll, and the thirtieth* part entered in the margin." Then follow the names of various ladies and gentlemen of Ipswich in those old days, as thus : " Robert of Barnville : Woollen and linen cloth, 40s. ; cups, 10s. ; furniture, 10s. ; corn, 10 mks. ; wood and furnishings, 4 mks. Total value, £13 6s. 8d. Levy payable, 8s. 10½d."

It mentions that " there was no ' exemption limit,' except the unfortunately common one of having no property at all."

* *I.e.*, a " flat rate " Levy on rich and poor alike of a little over 3 per cent.

V

Since the Chapter headed " Better Off " (page 65) was printed, it has been suggested that some " Political Economists " and Leaders and Members of the Socialist Labour Party might feel somewhat embarrassed if their friends endeavoured to make *them* " Better Off " by offering to take some of *their* capital and to give *them* in return a non-binding half promise that they might—perhaps ?—return them small sums out of their own money for an unspecified number of years, *i.e.*, on the same terms suggested as " A Practical Proposition " for a poor widow !

W

BEFORE AND AFTER

Compare the paragraphs in regard to the Capital Levy printed on page 24 of the *Before* Election Edition of "The Labour Speakers' Handbook" with the scanty references to the subject in the *After* Election Edition recently issued.

First Edition.
BEFORE General Election.

"A levy of £4,000,000,000 would reduce national expenditure by over £200,000,000 a year. *As a result* it would be possible to give relief to taxpayers in many ways. . . . It would be possible to abolish the taxes on food, cut off half the tax on tobacco, get rid of the Corporation and Entertainments Taxes, knock £50,000,000 off the income tax, and still have £30,000,000 over to provide education and other reforms. To a working class family of five persons this would mean a saving of 4s. a week. *Also most* professional men, shopkeepers, small business men and many others would gain by the Levy, and *only* those with *large* incomes derived from *great* investments would find themselves worse off."

Second Edition.
AFTER General Election.

"A levy on this scale would reduce the debt by £3,000,000,000. This would mean a reduction *in annual expenditure on debt charges* of £150,000,000. This would enable large reductions to be made in taxation, both direct and indirect."

NOTE.—All the specific advantages including Social Reforms have dropped out.

X

A CAPITAL LEVY DISCUSSION

Twenty-two members of the Industrial League and Council (Bankers, Business men, Labour leaders and Employees) debated this question at Footscray on October 13th. Only Mr. Pethick Lawrence and Mr. T. E. Naylor (London Society of Compositors) spoke in its favour. At least a dozen spoke against it. Mr. W. W. Paine, of Lloyds Bank, said he had an inclination to take the Labour view if possible, but his investigations had convinced him the Levy would do more harm than good. Mr. Appleton (General Secretary Federation of Trade Unions) was hostile to the Levy, which he was convinced would only intensify our present difficulties. Mr. H. G. Williams (Secretary Machine Tool Trades Association) said what we were suffering from was a *shortage* of Capital, and that the greatest service a rich man could render was to save money and thus render Capital plentiful and cheap. At the end a number of Labour leaders admitted that for the first time they had heard arguments against the Levy which they regarded as conclusive. (See *Times*, October 18th, 1923, page 18.)

Y

Sir Josiah Stamp, an economist and non-Party statistician, who is admittedly the highest authority on taxation, in an interview stated :—

" The general results of the Labour Party's present proposal would cause a disturbance of values and such a disappearance of many of the values to be taxed that credit would be destroyed or undermined, *and thus unemployment would be aggravated*. The inability to give complete guarantee that there would be no repetition or that income tax would be relieved by an equivalent amount would be bound to deter future saving, *and this again would react adversely on employment*."

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